Basic Financial Statements and OMB Circular A-133 Report

Government of the United States Virgin Islands
Year Ended September 30, 2007
With Report of Independent Auditors

Ernst & Young

Government of the United States Virgin Islands

Basic Financial Statements and
OMB Circular A-133 Report

Year Ended September 30, 2007

Contents

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Report of Independent Auditors

The Honorable Governor
of the Government of the United States Virgin Islands:

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government), as of and for the year ended September 30, 2007, which collectively comprise the Government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Government's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units:

- The Virgin Islands Public Finance Authority (PFA), a blended component unit, which represents 100% of the assets, fund balance, and revenue of the PFA Debt Service Fund (a major fund); 100% of the assets, fund balance, and revenue of the PFA Capital Projects Fund (a major fund); 100% of the assets, net assets, and revenue of the West Indian Company (a major fund); 1.94%, 2.03% and 0.66%, respectively, of the assets, net assets/fund balance, and revenue of the aggregate remaining fund information; 79.3% and 0.3% of the assets and revenues of the governmental activities; 57.7%, 47.5%, and 20.7%, respectively, of the assets, net assets, and revenue of the business-type activities, respectively. The PFA net assets represent $32.5 million of the $32.4 million net deficit of the governmental activities.

- The Virgin Islands Lottery (VI Lottery), a nonmajor enterprise fund, which represents 0.4%, 0.01% and 3.5%, respectively, of the assets, fund balance, and revenues of the aggregate remaining fund information, and 8.6%, 1.9%, and 34.5%, respectively, of the assets, net assets, and revenue of the business-type activities.

- The Tobacco Settlement Financing Corporation, a blended component unit, which represents 0.1% of the assets, and 0.2% of the net assets/fund balance and revenue of the aggregate remaining fund information, and 0.2% and 0.11%, respectively, of the assets and revenue of the governmental activities. The Tobacco Settlement Financing Corporation net assets represent $2.6 million of the $32.4 million net deficit of the governmental activities.

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- The Employees' Retirement System of the Government of the Virgin Islands (GERS), a fiduciary component unit (pension trust fund), which represents 90.6%, 91.8%, and 57.2%, respectively, of the assets, net assets/fund balance, and revenue of the aggregate remaining fund information.

- The Virgin Islands Housing Authority (VIHA), Virgin Islands Public Television System (VIPTS), Virgin Islands Economic Development Authority (VIEDA), Magens Bay Authority, Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Juan F. Luis Hospital and Medical Center), the Virgin Islands Housing Finance Authority (VIHFA), and the Waste Management Authority, discretely presented component units, which collectively represent 28.6%, 31.5%, and 49.3%, respectively, of the assets, net assets, and revenue of the aggregate discretely presented component units.

These financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the activities, funds, and component units indicated above, are based on the reports of other auditors.

Except as discussed in the following seven paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Government's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

The report of other auditors on the 2007 financial statements of VIHFA, a discretely presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether land held for sale of $25 million was fairly stated.

The report of other auditors on the 2007 financial statements of VIEDA, a discretely presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether loans receivable of $6 million were fairly stated.

The report of other auditors on the 2007 financial statements of VIPTS, a discretely presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether capital assets of $10.8 million were fairly stated.

The report of other auditors on the 2007 financial statements of GERS, a fiduciary component unit (pension trust fund), was qualified because GERS maintained investments in a limited partnership valued at $51 million, whose fair value has been estimated in the absence of a readily determinable fair value. GERS' estimate was based on information provided by the general partner of the limited partnership. The effect on the financial statements as a result of GERS' inability to document its procedures for determining fair value of the investment was not determinable. In addition, GERS maintained its real estate investment in the GERS complex related to the St. Thomas building held for lease based on historical cost. This real estate investment amounted to approximately $19.9 million. Such investment should have been presented at fair value in accordance with U.S. generally accepted accounting principles. Finally, GERS did not maintain requisite documentation to support the cash overdraft balance with the Government stated at $10.4 million.

The report of other auditors on the 2007 financial statements of the VI Lottery, a nonmajor enterprise fund, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether the amount due to the general fund of $4.5 million was fairly stated.

The Government did not maintain the requisite documentation to support its accrued compensated absences liability of $46.7 million. As a result, we were unable to obtain sufficient audit evidence to determine whether adjustments to this balance in the governmental activities were required.

The basic financial statements do not include liabilities for workers' compensation and medical malpractice claims and, accordingly, the Government has also not recorded an expense for the current period change in those liabilities. The Government's records do not permit, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the business-type activities and aggregate remaining fund information as of and for the year ended September 30, 2007 may have been affected by this condition.

Because of the matter discussed in the preceding paragraph of this report, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial position of the business-type activities and aggregate remaining fund information as of September 30, 2007 and the changes in financial position and, where applicable, cash flows for the year then ended.

In our opinion, based on our audit and the reports of other auditors, except for the effect of the adjustments, if any, as might be determined to be necessary, had the other auditors been able to obtain sufficient audit evidence to determine whether (1) land held for sale of $25 million in the financial statements of VIHFA, (2) loans receivable of $6 million in the financial statements of VIEDA, and (3) capital assets of $10.8 million in the financial statements of VIPTS were fairly stated as described in paragraphs four, five and six above, and the effect of the adjustments, if any, as might be determined to be necessary, had we been able to obtain sufficient audit evidence to determine whether the accrued compensated absences liability in the governmental activities is fairly stated as described in paragraph nine above, the financial statements referred to previously, present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units and the governmental activities, respectively, of the Government of the United States Virgin Islands, as of September 30, 2007, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Finally, in our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Government of the United States Virgin Islands, as of September 30, 2007, and the respective changes in financial position and respective budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

As described more fully in Note 16 to the financial statements, as of October 1, 2006, the fund balance/net assets of the general fund and governmental activities were restated by $18.4 million and $23.6 million, respectively.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2009, on our consideration of the Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, and the schedules of funding progress and employer contributions listed under required supplementary information in the table of contents are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Government's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst & Young LLP

October 15, 2009

Introduction

The following discussion and analysis presents an overview of the financial position and activities of the Government of the United States Virgin Islands (the Government) as of and for the fiscal years ended September 30, 2007 and 2006.

Government-wide Financial Statements

The government-wide financial statements are designed to present an overall picture of the financial position of the Government. These statements consist of the statement of net assets and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that current year's revenue and expenses are included regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private-sector companies.

The statement of net assets combines and consolidates the Government's current financial resources with capital assets and long-term obligations.

Both of the above-mentioned financial statements have separate sections for three different types of the Government programs or activities. These three types of activities are as follows:

> ***Governmental Activities –*** The activities in this section are mostly supported by taxes and intergovernmental revenue (federal grants). Most services normally associated with the primary government (PG) fall into this category, including general government, public safety, health, public housing and welfare, education, transportation and communication, and culture and recreation.
>
> ***Business-Type Activities –*** These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the Government include the operations of the (i) unemployment insurance program and (ii) the West Indian Company (WICO). Both of these programs operate with minimal assistance from the governmental activities of the Government.

Discretely Presented Component Units – These are operations for which the Government has financial accountability even though they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The Government’s discretely presented component units are presented in two categories, major and nonmajor. This separation is determined by the relative size of the entities’ assets, liabilities, revenue, and expenses in relation to the total of all component units.

Fund Financial Statements

Fund financial statements focus on the most significant (or major) funds of the Government. A fund is a separate accounting entity with a self-balancing set of accounts. The Government uses funds to keep track of sources of funding and spending related to specific activities. The Government uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

A major fund is a fund whose revenue, expenditures or expenses, assets, or liabilities (excluding extraordinary items) are at least 10% of the corresponding totals for all governmental or enterprise funds and at least 5% of the aggregate amount for all governmental and enterprise funds for the same item. The general fund is always considered a major fund. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the Government believes is particularly important to the financial statements may be reported as a major fund.

All of the funds of the Government are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental funds statements provide a detailed short-term view of the PG’s general governmental operations and the basic services it provides. The reconciliation following the fund financial statements explains the differences between the governmental activities, reported in the government-wide financial statements, and the governmental funds’ financial statements. The General Fund, the PFA Debt Service, and the PFA Capital Projects Fund are reported as major governmental funds.

The General Fund is the PG's primary operating fund. It accounts for all financial resources of the PG, except those required to be accounted for in another fund.

The PFA Debt Service Fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by the Virgin Islands Public Finance Authority (PFA) on behalf of the Government.

The PFA Capital Projects Fund accounts for bond proceeds of debt issued by the PFA on behalf of the Government. The bond proceeds have been designated for certain necessary public safety and capital development projects which are accounted for in this fund.

Proprietary Funds

Services provided to outside (nongovernmental) customers are reported in enterprise funds. Enterprise funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the government-wide financial statements.

The West Indian Company (WICO) fund is a major proprietary fund.

The WICO fund accounts for the activities of WICO, which owns a port facility including a cruise ship pier, and manages a shopping mall and a rental complex.

Fiduciary Funds

The Government is the trustee, or fiduciary, for several agency funds.

The fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Financial Analysis of the Government as a Whole

The PG and its component units experienced an economic downturn due to a court injunction delaying the issuance of the fiscal year 2006 and 2007 property taxes and the continued downturn in tourism following the 2002 recession and the events of September 11, 2001.
The Government has initiated specific actions to improve its future cash flows through an initiative to attract new employers into the United States Virgin Islands (the Territory), an overhaul of the property tax assessment and valuation system, the development of a series of revenue enhancement measures, and expenditure reduction initiatives, directed toward improving the Government's financial situation.

In fiscal year 2007, the Government did not issue any bonds or loans. In fiscal year 2006, the Government issued the 2006 Series A Tobacco Settlement Asset-Backed Capital Appreciation

Bonds amounting to $48 million with an issue value of $7.3 million for the purpose of financing several capital, hospital and health development projects. Also, issued in 2006 were the 2006 Series A Revenue Bonds and the 2006 Series Revenue Notes. The 2006 Series A Revenue Bonds amounting to $219.5 million were issued for the purpose of advance refunding the 1999 Series A bonds and funding capital projects of the PG. The 2006 Series Note in the amount of $4 million was issued to finance the purchase of fire equipment, train fire fighters and make renovations and repairs to the Territory's fire stations. In fiscal year 2005, the Government issued the 2004 Series A Bonds amounting to $94 million to fund wastewater treatment and solid waste capital projects of the PG; and the series 2005 Subordinate Lien Revenue Notes amounting to $6.4 million to finance the acquisition of a fleet of vehicles for the police department.

Financial Analysis of the Primary Government

Total assets of the Government as of September 30, 2007 and 2006 were $1.9 billion and $1.86 billion, respectively, an increase of approximately $40 million. Total liabilities as of September 30, 2007 and 2006 were $1.86 billion and $1.85 billion, respectively, an increase of approximately $13 million.

As of September 30, 2007, the PG net assets of $36.3 million consisted of $190.4 million invested in capital assets, net of related debt; $156.9 million restricted by statute or other legal requirements that were not available to finance day-to-day operations of the Government; and an unrestricted net deficit of $311 million. As of September 30, 2006, the PG net assets of $9.2 million consisted of $135.7 million invested in capital assets, net of related debt; $169 million restricted by statute or other legal requirements that were not available to finance day-to-day operations of the Government; and an unrestricted net deficit of $295.5 million.

For the fiscal year ended September 30, 2007, the PG earned program and general revenue amounting to $1.14 billion, and reported expenses of $1.11 billion, resulting in a increase in the net deficit of $27.1 million.

For the fiscal year ended September 30, 2006, the PG earned program and general revenue amounting to $1.19 billion, and reported expenses of $1.04 billion, resulting in a decrease in the net deficit of $149.9 million.

Overall, revenue decreased approximately $50 million in fiscal 2007, when compared to fiscal 2006, mainly due to decreases in tax revenue. Expenses increased in fiscal 2007 when compared to fiscal 2006 by $73 million, mainly due to increases in payroll expense and related benefits.

A summary of net assets (deficit) and changes in net assets (deficit) for the primary government follows:

	Governmental activities		Business-type activities		Total	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
		(As restated)				*(As restated)*
Assets						
Current assets	$ 1,050,665	$ 1,089,284	$ 52,254	$ 55,188	$ 1,102,919	$ 1,144,472
Capital assets	718,714	639,669	50,113	46,295	768,827	685,964
Other assets	23,995	25,338	347	377	24,342	25,715
Total assets	1,793,374	1,754,291	102,714	101,860	1,896,088	1,856,151
Liabilities						
Long-term debt outstanding	1,142,518	1,175,118	22,015	20,719	1,164,533	1,195,837
Other liabilities	683,277	645,402	11,952	5,687	695,229	651,089
Total liabilities	1,825,795	1,820,520	33,967	26,406	1,859,762	1,846,926
Net Assets						
Invested in capital assets, net of related debt	160,474	110,094	29,947	25,576	190,421	135,670
Restricted	134,669	130,141	22,259	38,920	156,928	169,061
Unrestricted (deficit)	(327,564)	(306,467)	16,543	10,958	(311,021)	(295,509)
Total net assets (deficit)	$ (32,421)	$ (66,232)	$ 68,749	$ 75,454	$ 36,328	$ 9,222

Changes in Net Assets (Deficit) – Primary Government

Years Ended September 30, 2007 and 2006

(In thousands)

	Governmental Activities		Business-type Activities		Total	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Revenue:						
Program revenue:						
Charges for services	**$ 48,689**	$ 33,687	**$ 52,080**	$ 53,067	**$ 100,769**	$ 86,754
Operating grants and contributions	**143,096**	146,448	**–**	–	**143,096**	146,448
General revenue:						
Taxes	**820,665**	872,108	**–**	–	**820,665**	872,108
Interest and other	**65,157**	78,193	**4,715**	2,076	**69,872**	80,269
Other general revenue	**2,157**	973	**–**	–	**2,157**	973
Total revenue	**1,079,764**	1,131,409	**56,795**	55,143	**1,136,559**	1,186,552
Expenses:						
General government	**336,673**	395,868	**–**	–	**336,673**	395,868
Public safety	**84,553**	58,223	**–**	–	**84,553**	58,223
Health	**145,922**	109,271	**–**	–	**145,922**	109,271
Public housing and welfare	**104,675**	70,736	**–**	–	**104,675**	70,736
Education	**254,668**	196,395	**–**	–	**254,668**	196,395
Transportation and communication	**54,919**	60,700	**–**	–	**54,919**	60,700
Culture and recreation	**10,183**	6,852	**–**	–	**10,183**	6,852
Termination of swaption fee	**–**	26,910	**–**	–	**–**	26,910
Interest on long-term debt	**55,281**	61,648	**–**	–	**55,281**	61,648
Unemployment insurance	**–**	–	**10,190**	5,151	**10,190**	5,151
West Indian Company	**–**	–	**10,369**	9,638	**10,369**	9,638
Workmen's Compensation	**–**	–	**8,451**	9,121	**8,451**	9,121
VI Lottery	**–**	–	**16,591**	15,708	**16,591**	15,708
Other business-type activities	**–**	–	**16,978**	10,434	**16,978**	10,434
Total expenses	**1,046,874**	986,603	**62,579**	50,052	**1,109,453**	1,036,655
Increase (decrease) in net assets before transfers	**32,890**	144,806	**(5,784)**	5,091	**27,106**	149,897
Transfers	**921**	(4,938)	**(921)**	4,938	**–**	–
	921	(4,938)	**(921)**	4,938	**–**	–
Change in net assets	**33,811**	139,868	**(6,705)**	10,029	**27,106**	149,897
Net assets (deficit) at beginning of year, as restated	**(66,232)**	(206,100)	**75,454**	65,425	**9,222**	(140,675)
Net assets (deficit) at end of year	**$ (32,421)**	$ (66,232)	**$ 68,749**	$ 75,454	**$ 36,328**	$ 9,222

The Virgin Islands Office of Management and Budget of the PG prepares an annual executive budget subject to approval by the Governor and the Legislature of the Virgin Islands. The executive budget is prepared on a budgetary basis similar to the cash basis of accounting. The executive budget includes only those funds that are subject to appropriation by law. More information regarding budgetary procedures is provided in Note 3 of the basic financial statements. A summary of the budgetary report for the General Fund of the PG, included on page 25 of the financial statements, follows:

Revenue and Expenditures – Budget and Actual –
Budgetary Basis – General Fund

Year Ended September 30, 2007
(In thousands)

	Original Budget	Amended Budget	Actual	Variance
Total revenue	$ 650,546	$ 650,546	$ 672,329	$ 21,783
Total expenditures	782,949	838,625	779,633	58,992
Excess of expenditures over revenue	(132,403)	(188,079)	(107,304)	80,775
Other financing sources	84,701	83,140	95,497	12,357
Excess of expenditures over revenues and sources	$ (47,702)	$ (104,939)	$ (11,807)	$ 93,132

For fiscal 2007, the PG realized a revenue variance of $21.8 million due to an increase in the collection of certain tax revenues. The PG realized a $58.9 million variance in expenditures due to controlled spending. The PG realized a $12.4 million variance in other financing sources due to the fact that transfers to the General Fund were higher than budgetary estimates.

Capital Assets

Capital assets additions during fiscal 2007 amounted to $102.7 million for governmental activities, and $5.9 million for business-type activities.

Capital assets additions during fiscal 2006 amounted to $70.9 million for governmental activities and $4.6 million for business-type activities.

The Government's capital assets include land, land improvements, buildings, building improvements, machinery, equipment, infrastructure, and construction in progress as follows:

Capital Assets – Primary Government

(In thousands)

	Governmental Activities		Business-type Activities		Total	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Land and improvements	**$ 187,575**	$ 175,513	**$ 5,327**	$ 5,317	**$ 192,902**	$ 180,830
Building and improvements	**353,704**	337,774	**52,868**	49,638	**406,572**	387,412
Machinery and equipment	**90,365**	67,710	**5,810**	4,619	**96,175**	72,329
Infrastructure	**167,169**	133,776	**–**	–	**167,169**	133,776
Construction in progress	**118,357**	99,688	**7,053**	5,600	**125,410**	105,288
Total assets	**917,170**	814,461	**71,058**	65,174	**988,228**	879,635
Less accumulated depreciation	**(198,456)**	(174,792)	**(20,945)**	(18,879)	**(219,401)**	(193,671)
Total capital assets	**$ 718,714**	$ 639,669	**$ 50,113**	$ 46,295	**$ 768,827**	$ 685,964

Note 9 provides detailed information regarding the capital assets of the primary government and the component units of the Government.

Debt Administration

The Government issues both general obligation bonds and revenue bonds. The Revised Organic Act [48 U.S.C. Section 1574 (b)(ii)] restricts the principal amount of general obligation debt that the Government may issue to no greater than 10% of the aggregate assessed valuation of taxable real property in the U.S. Virgin Islands. Following is a summary of bonds outstanding as of September 30, 2007:

Primary Government – Bonds Payable

(In thousands)

Bonds Payable	Final Maturity	Interest Rates (%)	Balance
1998 Series A, C, D, and E Revenue and Refunding Bonds	2025	5.50 to 7.11	$ 429,405
1999 Series A General Obligation Bonds	2010	6.50	2,815
1999 Series A Revenue Bonds	2020	4.20 to 6.50	105,410
2001 Series A Tobacco Bonds	2031	5.00	21,365
2002 Series Garvee Bonds	2009	2.50 to 5.00	6,785
2003 Series A Revenue Bonds	2033	4.00 to 5.25	262,155
2004 Series A Revenue Bonds	2024	4.00 to 5.25	88,725
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 - 7.625	7,290
2006 Series A Revenue Bonds	2029	3.50 - 5.00	219,490
Subtotal			1,143,440
Deferred amount on refundings			(17,234)
Bond premium			18,007
Bond discount			(6,548)
Bond accretion			678
Total			$ 1,138,343

Note 10 provides detailed information regarding all bonds of the PG.

During fiscal 2007 no bonds or notes were issued.

During fiscal 2006, the 2006 Series A Revenue Bonds amounting to $219.5 million; the 2006 Series Note amounting to $4 million and the 2006 Series A Tobacco Settlement Asset-Backed Bonds with an issue value of $7.3 million and a face value of $48 million, were issued.

The PG made bond principal payments on all outstanding general and special revenue bonds amounting to $31 million during fiscal year 2007, and $192 million during fiscal year 2006.

The Government's bonds carry insured ratings of "AAA" and "Aaa" from Fitch Ratings and Moody's Investors Services, respectively. Ratings reflect only the respective views of the rating agencies and an explanation of the significance of each rating may be obtained from the respective rating agency.

Other liabilities of the PG include:

Primary Government – Other Liabilities

September 30, 2007 and 2006

(In millions)

	2007	2006
Accrued compensated absences	$ 47	$ 44
Retroactive union arbitration liability	272	272
Accrued litigation	8	14
Landfill closure and post closure costs	37	33
Total other liabilities	$ 364	$ 363

Economic Condition and Outlook

The PG continues its recovery efforts from the recession of fiscal years 2001 and 2002 through a combination of revenue initiatives and budgetary restraint on expenditures.

Revenue Initiatives

The PG collects income tax revenue under the "mirror" income tax system. The PG's tax laws mirror the U.S. Internal Revenue Service (IRS) Code, Rules, and Regulations. The 2003 and 2004 Tax Acts passed by U.S. Congress have had a negative impact on revenue due to changes in sourcing of revenue rules as defined for the U.S. Virgin Islands, restrictions on residency rules, a decrease in tax rates, expanded tax credits and new stimulus payments, and expanded tax deductions. To offset the negative impact on the new regulations, the PG negotiated with the United States Treasury for a reimbursement of tax stimulus payments, expanded efforts to promote tourism and developed a campaign to attract new industries into the Territory.

In connection with a real property tax case instituted against the PG in the U.S. District Court of the Virgin Islands, the PG was enjoined from appraising and assessing any real property taxes until it modified its system of appraisal to comply with certain court mandates. The PG retained a consultant to modify its system of appraisal and to perform reassessment of properties. This project was completed in fiscal 2007. In fiscal 2007, legislation was introduced to Congress to move the control of property tax assessments from the federal government to the Government of the Virgin Islands.

The Government is currently in litigation challenging the computation of its corporate franchise tax. Of the four cases brought against the Government, one is currently before the Virgin Islands Territorial Court, and the remaining three cases are on appeal.

Budgetary Control of Expenditures

The PG faces the challenge of carryforward expenditures from prior fiscal years and increasing expenditures in fiscal 2007. Carryforward expenditures consist mainly of retroactive salary increases, which accumulated following Hurricanes Hugo, Marilyn and Bertha in the years of 1990 through 1998. At September 30, 2007 and 2006, unpaid retroactive salary increases amounted to $272 million, which are reported as a liability of the Government within other noncurrent liabilities.

Current increasing governmental expenditures include increased health insurance premiums, pharmaceutical premiums, and salary expense. Expenditures are closely monitored and controlled through the budgetary process.

Deficit Reduction Measures

In fiscal years 2007 and 2006, the PG reported an unrestricted net deficit of $311 million and $300.8 million, respectively.

The PG has implemented a number of deficit reducing measures including: (i) withholding of local gross receipts taxes on Government invoice payments, (ii) increasing local taxes such as the highway-users tax and stamp tax; (iii) exerting greater control of expenditures through the budgetary process, and (iv) implementation of tax amnesties for property and gross receipts taxes.

Contacting the Government's Financial Management

This financial report is designed to provide the Government's citizens, taxpayers, customers, and investors and creditors with a general overview of the Government's finances. If you have questions about this report, or need additional financial information, contact the Government of the United States Virgin Islands, Department of Finance, No. 2314 Kronprindsens Gade, St. Thomas, VI 00802.

Government of the United States Virgin Islands

Statement of Net Assets (Deficit)

September 30, 2007
(In thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
Assets				
Cash and cash equivalents	$ 254,017	$ 24,827	$ 278,844	$ 75,757
Investments	507,682	4,093	511,775	45,278
Receivables, net	234,444	3,921	238,365	86,167
Internal balances	8,597	(8,597)	–	–
Loans and advances, net	–	–	–	51
Due from component units, net	7,249	–	7,249	–
Notes receivable	–	–	–	9,363
Due from primary government	–	–	–	3,435
Due from federal government	36,639	–	36,639	12,436
Inventories	–	24	24	28,426
Other assets	2,037	954	2,991	25,054
Restricted:				
Cash and cash equivalents	–	27,034	27,034	53,088
Investments	–	–	–	105,989
Other	–	–	–	3,390
Capital assets, net	718,714	50,113	768,827	816,013
Deferred and other expenses	23,995	347	24,342	19,327
Total assets	1,793,374	102,716	1,896,090	1,283,774
Liabilities				
Accounts payable and accrued liabilities	117,639	7,863	125,502	111,693
Tax refunds payable	100,091	–	100,091	–
Unemployment insurance benefits	–	3,956	3,956	–
Customer deposits	–	–	–	24,154
Due to primary government	–	–	–	40,946
Due to component units	3,435	–	3,435	–
Due to federal government	–	–	–	7,873
Interest payable	29,750	–	29,750	4,733
Unearned revenue	65,329	133	65,462	4,758
Other current liabilities	3,287	–	3,287	14,881
Noncurrent liabilities:				
Due within one year:				
Loans payable	2,774	623	3,397	2,238
Bonds payable	33,554	–	33,554	11,453
Other liabilities	28,539	–	28,539	1,203
Due in more than one year:				
Loans payable	1,401	21,392	22,793	19,190
Bonds payable	1,104,789	–	1,104,789	312,167
Other liabilities	335,207	–	335,207	31,819
Total liabilities	1,825,795	33,967	1,859,762	587,108

(Continued)

Government of the United States Virgin Islands

Statement of Net Assets (Deficit) (continued)

September 30, 2007
(In thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
Net assets (deficit)				
Invested in capital assets, net of related debt	160,474	29,947	190,421	563,081
Restricted for:				
Unemployment insurance	–	22,259	22,259	–
Debt service	134,669	–	134,669	–
Other purposes	–	–	–	100,547
Unrestricted	(327,564)	16,543	(311,021)	34,038
Total net assets (deficit)	$ (32,421)	$ 68,749	$ 36,328	$ 697,666

See accompanying notes.

Government of the United States Virgin Islands

Statement of Activities

Year Ended September 30, 2007

(In thousands)

		Program Revenues			Net Revenue (Expense) and Changes in Net Assets			
					Primary Government			
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**	**Component Units**
Functions:								
Primary government:								
Governmental activities:								
General government	$ 336,673	$ 45,964	$ 46,761	$ –	$ (243,948)	$ –	$ (243,948)	$ –
Public safety	84,553	311	4,206	–	(80,036)	–	(80,036)	–
Health	145,922	325	21,905	–	(123,692)	–	(123,692)	–
Public housing and welfare	104,675	1,141	47,203	–	(56,331)	–	(56,331)	–
Education	254,668	–	16,487	–	(238,181)	–	(238,181)	–
Transportation and communication	54,919	835	6,484	–	(47,600)	–	(47,600)	–
Culture and recreation	10,183	113	50	–	(10,020)	–	(10,020)	–
Interest on long-term debt	55,281	–	–	–	(55,281)	–	(55,281)	–
Total governmental activities	1,046,874	48,689	143,096	–	(855,089)	–	(855,089)	–
Business-type activities:								
Unemployment insurance	10,190	1,084	–	–	–	(9,106)	(9,106)	–
West Indian Company	10,369	10,674	–	–	–	305	305	–
Workmen's compensation	8,451	8,799	–	–	–	348	348	–
VI Lottery	16,591	19,153	–	–	–	2,562	2,562	–
Other	16,978	12,370	–	–	–	(4,608)	(4,608)	–
Total business-type activities	62,579	52,080	–	–	–	(10,499)	(10,499)	–
Total primary government	$ 1,109,453	$ 100,769	$ 143,096	$ –	(855,089)	(10,499)	(865,588)	–
Component units:								
Virgin Islands Housing Authority	$ 41,949	$ 5,557	$ 34,738	$ –	–	–	–	(1,654)
Virgin Islands Port Authority	51,636	44,074	–	8,968	–	–	–	1,406
Virgin Islands Water and Power Authority:								
Electric system	224,127	220,126	–	1,655	–	–	–	(2,346)
Water system	32,070	33,677	–	1,756	–	–	–	3,363
Virgin Islands Government								
Hospital and Health Facilities Corporation:								
Roy L. Schneider Hospital	84,468	45,239	30,121	3,306	–	–	–	(5,802)
Juan F. Luis Hospital	63,161	31,427	28,044	10,622	–	–	–	6,932
University of the Virgin Islands	69,485	15,690	47,558	3,192	–	–	–	(3,045)
Other component units	49,982	4,979	50,850	3,578	–	–	–	9,425
Total component units	$ 616,878	$ 400,769	$ 191,311	$ 33,077	–	–	–	8,279

(Continued)

Government of the United States Virgin Islands

Statement of Activities (continued)

Year Ended September 30, 2007
(In thousands)

	Net Revenue (Expense) and Changes in Net Assets — Primary Government: Governmental Activities	Business-type Activities	Total	Component Units
Total primary government and component units	(855,089)	(10,499)	(865,588)	8,279
General revenues:				
Taxes	820,665	–	820,665	–
Interest and other	65,157	4,715	69,872	19,455
Tobacco settlement rights	2,157	–	2,157	–
Transfers – internal activities of primary government	921	(921)	–	–
Total general revenue and transfers	888,900	3,794	892,694	19,455
Changes in net assets (deficit)	33,811	(6,705)	27,106	27,734
Net assets (deficit), beginning of year, as restated	(66,232)	75,454	9,222	669,932
Net assets (deficit), end of year	$ (32,421)	$ 68,749	$ 36,328	$ 697,666

See accompanying notes.

0908-1084161

Government of the United States Virgin Islands

Balance Sheet – Governmental Funds

September 30, 2007
(In thousands)

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total Governmental
Assets					
Cash and cash equivalents	$ 161,051	$ 459	$ 26,446	$ 66,061	$ 254,017
Investments	224,169	169,445	95,533	18,535	507,682
Receivables:					–
Taxes, net	182,156	50,410	–	–	232,566
Accrued interest and other	1,759	–	–	245	2,004
Due from:					
Other funds	9,817	–	324	12,736	22,877
Component units, net	7,249	–	–	–	7,249
Federal government	11,494	–	–	25,145	36,639
Other assets	–	–	–	34	34
Total assets	$ 597,695	$ 220,314	$ 122,303	$ 122,756	$ 1,063,068
Liabilities and Fund Balances					
Accounts payable and accrued liabilities	$ 101,547	$ –	$ 256	$ 15,836	$ 117,639
Tax refunds payable	100,091	–	–	–	100,091
Due to:					
Other funds	11,102	–	–	3,178	14,280
Component units	3,435	–	–	–	3,435
Deferred revenue	154,845	85,318	–	3,570	243,733
Other current liabilities	–	–	2,300	987	3,287
Total liabilities	371,020	85,318	2,556	23,571	482,465
Fund balances reserved for:					
Encumbrances	55,323	–	–	–	55,323
Debt service	–	134,996	–	5,147	140,143
Unreserved fund balance, reported in:					
General fund	171,352	–	–	–	171,352
Debt service funds	–	–	–	11,000	11,000
Special revenue funds	–	–	–	103,229	103,229
Capital projects funds	–	–	119,747	(20,191)	99,556
Total fund balances	226,675	134,996	119,747	99,185	580,603
Total liabilities and fund balances	$ 597,695	$ 220,314	$ 122,303	$ 122,756	

Amounts reported for governmental activities in the statement of net assets (deficit) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	718,714
Deferred bond issue costs are not financial resources and, therefore, are not reported in the funds.	23,995
Other long-term assets, primarily taxes receivable, will not be available to pay for current period expenditures and, therefore, are deferred in the funds	180,281
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(29,750)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,506,264)
Deficit of governmental activities	$ (32,421)

See accompanying notes.

Government of the United States Virgin Islands

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year Ended September 30, 2007
(In thousands)

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total Governmental
Revenues:					
Taxes	$ 653,007	$ 192,283	$ 3,686	$ 24,564	$ 873,540
Federal grants and contributions	11,494	3,649	–	135,168	150,311
Charges for services	37,156	–	–	11,532	48,688
Tobacco settlement rights	–	–	–	1,063	1,063
Interest and other	26,383	6,608	5,912	23,197	62,100
Total revenues	728,040	202,540	9,598	195,524	1,135,702
Expenditures:					
Current:					
General government	283,283	–	48	41,847	325,178
Public safety	69,370	–	–	5,165	74,535
Health	116,637	–	–	28,128	144,765
Public housing and welfare	50,745	–	1,984	51,193	103,922
Education	242,412	–	–	13,566	255,978
Transportation and communication	22,551	–	1,539	13,424	37,514
Culture and recreation	21,020	–	–	34	21,054
Capital outlays	37,300	–	46,662	18,747	102,709
Debt service:					
Principal	–	30,030	3,413	1,305	34,748
Interest	–	54,639	273	905	55,817
Total expenditures	843,318	84,669	53,919	174,314	1,156,220
Excess (deficiency) of revenue over (under) expenditures	(115,278)	117,871	(44,321)	21,210	(20,518)
Other financing sources (uses):					
Transfers from other funds	122,422	5,401	–	26,886	154,709
Transfers to other funds	(26,925)	(118,417)	(4,092)	(4,354)	(153,788)
Total other financing sources (uses), net	95,497	(113,016)	(4,092)	22,532	921
Net change in fund balances	(19,781)	4,855	(48,413)	43,742	(19,597)
Fund balance at beginning of year, as restated	246,456	130,141	168,160	55,443	600,200
Fund balance at end of year	$ 226,675	$ 134,996	$ 119,747	$ 99,185	$ 580,603

See accompanying notes.

Government of the United States Virgin Islands

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds

Year Ended September 30, 2007
(In thousands)

Net change in fund balances – total governmental funds	$	(19,597)
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		79,045
Tax revenue in the statement of activities, which do not provide current financial resources, are not reported as revenue in the funds.		(51,778)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. There were no debt issuances during the year. This amount represents principal retirements of long-term debt.		34,748
Some federal contributions reported in the statement of activities do not generate current financial resources and therefore are not reported as revenues in governmental funds.		(5,208)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the increase in certain liabilities reported in the statement of net assets of the previous year increased expenses reported in the statement of activities that do not require the use of current financial resources.		(442)
Bond issue costs are expended in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount by which current year bond issue costs exceeded amortization expense in the current period.		(1,346)
Bond premiums and discounts are reported as other financing sources and uses in the governmental funds when the bonds are issued, and are capitalized and amortized in the government-wide financial statements. This amount represents additional net interest expense reported in the statement of activities related to the amortization of premiums, discounts deferred refunding loss, and accreted interest on capital appreciation bonds during the current year.		(2,147)
Certain interest reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds. This amount represents the decrease in interest payable reported in the statement of net assets less the portion of accrued interest.		536
Change in net assets of governmental activities	$	33,811

See accompanying notes.

Government of the United States Virgin Islands

Statement of Revenues and Expenditures – Budget and Actual –
Budgetary Basis – General Fund

Year Ended September 30, 2007
(In thousands)

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Taxes	$ 606,395	$ 606,395	$ 632,799	$ 26,404
Charges for services	8,850	8,850	29,278	20,428
Interest and other	35,301	35,301	10,252	(25,049)
Total revenues	650,546	650,546	672,329	21,783
Expenditures:				
Current:				
General government	217,145	255,751	241,967	13,784
Public safety	106,585	106,725	69,370	37,355
Health	106,066	106,962	116,637	(9,675)
Public housing and welfare	58,832	59,462	50,745	8,717
Education	239,273	247,406	242,061	5,345
Transportation and communication	34,897	41,993	2,928	39,065
Culture and recreation	20,151	20,326	19,843	483
Capital outlays	–	–	36,082	(36,802)
Total expenditures	782,949	838,625	779,633	58,272
Excess of expenditures over revenue	(132,403)	(188,079)	(107,304)	(36,489)
Other financing sources (uses):				
Transfers from other funds	99,466	99,466	122,422	22,956
Transfer to other funds	(14,765)	(16,326)	(26,925)	(10,599)
Total other financing sources, net	84,701	83,140	95,497	12,357
Excess of expenditures and other financing uses over revenues	$ (47,702)	$ (104,939)	$ (11,807)	$ 93,132

See accompanying notes.

Government of the United States Virgin Islands

Statement of Net Assets – Proprietary Funds

September 30, 2007
(In thousands)

	Business-type Activities – Enterprise Funds		
	West Indian Company	Other Enterprise	Totals
Assets			
Current assets:			
Cash and cash equivalents	$ 5,580	$ 19,247	$ 24,827
Investments at fair value	1,093	3,000	4,093
Receivables, net:			
Premiums receivable	–	785	785
Other receivables	1,690	1,446	3,136
Due from other funds	–	300	300
Inventories and other current assets	–	24	24
Other assets	855	99	954
Total current assets	9,218	24,901	34,119
Noncurrent assets:			
Restricted cash and cash equivalents	1,848	25,186	27,034
Capital assets	38,427	11,686	50,113
Deferred expenses	347	–	347
Total noncurrent assets	40,622	36,872	77,494
Total assets	49,840	61,773	111,613
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	1,802	6,061	7,863
Due to other funds	2,000	6,897	8,897
Unemployment insurance benefits	–	3,956	3,956
Unearned revenue	–	133	133
Loans payable related to capital assets	623	–	623
Total current liabilities	4,425	17,047	21,472
Noncurrent liabilities:			
Loans payable related to capital assets	21,392	–	21,392
Total liabilities	25,817	17,047	42,864
Net assets			
Invested in capital assets, net of related debt	18,261	11,686	29,947
Restricted	–	22,259	22,259
Unrestricted	5,762	10,781	16,543
Total net assets	$ 24,023	$ 44,726	$ 68,749

See accompanying notes.

Government of the United States Virgin Islands

Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds

Year Ended September 30, 2007
(In thousands)

	Business-type Activities – Enterprise Funds		
	West Indian Company	**Other Enterprise**	**Total**
Operating revenues:			
Charges for services	$ 10,674	$ 41,405	$ 52,079
Total operating revenues	10,674	41,405	52,079
Operating expenses:			
Cost of services	7,563	51,497	59,060
Depreciation and amortization	1,411	712	2,123
Total operating expenses	8,974	52,209	61,183
Operating income (loss)	1,700	(10,804)	(9,104)
Non-operating revenue (expenses):			
Interest income	355	2,114	2,469
Interest expense	(1,395)	–	(1,395)
Other contributions	692	1,554	2,246
Total non-operating revenue (expenses), net	(348)	3,668	3,320
Income (loss) before operating transfers	1,352	(7,136)	(5,784)
Transfers from other funds	–	942	942
Transfers to other funds	(1,000)	(863)	(1,863)
Change in net assets	352	(7,057)	(6,705)
Net assets at beginning of year	23,671	51,783	75,454
Net assets at end of year	$ 24,023	$ 44,726	$ 68,749

See accompanying notes.

Government of the United States Virgin Islands

Statement of Cash Flows – Proprietary Funds

Year Ended September 30, 2007
(In thousands)

	Business-type Activities – Enterprise Funds		
	West Indian Company	Other Enterprise	Total
Cash flows from operating activities			
Receipts from customers and users	$ 10,519	$ 41,591	$ 52,110
Payments to beneficiaries	–	(10,190)	(10,190)
Payments to suppliers and employees	(7,296)	(34,286)	(41,582)
Net cash provided by (used in) operating activities	3,223	(2,885)	338
Cash flows from noncapital financing activities			
Transfer from other funds	–	942	942
Transfers to other funds	–	(863)	(863)
Net cash provided by noncapital financing activities	–	79	79
Cash flows from capital and related financing activities			
Other contributions	700	1,554	2,254
Acquisition and construction of capital assets	(4,353)	(1,595)	(5,948)
Principal paid on long-term debt	1,296	–	1,296
Interest paid on long-term debt	(1,365)	–	(1,365)
Net cash used in capital and related financing activities	(3,722)	(41)	(3,763)
Cash flows from investing activities			
Interest and dividends on investments	355	2,114	2,469
Purchase of investments	(83)	(3,000)	(3,083)
Net cash provided by (used in) investing activities	272	(886)	(614)
Net decrease in cash and cash equivalents	(227)	(3,733)	(3,960)
Cash and cash equivalents at beginning of year	7,655	48,166	55,821
Cash and cash equivalents at end of year	$ 7,428	$ 44,433	$ 51,861
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	$ 1,700	$ (10,804)	$ (9,104)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	1,411	712	2,123
Change in assets and liabilities:			
Receivables, net	(155)	187	32
Deferred revenue	–	(1)	(1)
Other assets	(56)	4	(52)
Accounts payable and accrued expenses	323	4,018	4,341
Due to other funds	–	1,075	1,075
Unemployment insurance benefits	–	1,924	1,924
Net cash provided by (used in) operating activities	$ 3,223	$ (2,885)	$ 338
Reconciliation of cash and cash equivalents to the statement of net assets			
Cash and cash equivalents – current	$ 5,580	$ 19,247	$ 24,827
Cash and cash equivalents – restricted	1,848	25,186	27,034
Cash and cash equivalents at end of year on statement of cash flows	$ 7,428	$ 44,433	$ 51,861

See accompanying notes.

Government of the United States Virgin Islands

Statement of Fiduciary Net Assets – Fiduciary Funds

September 30, 2007
(In thousands)

	Pension Trust Fund	Agency Funds
Assets		
Cash and cash equivalents:		
Unrestricted	$ 84,801	$ 12,003
Restricted	77	–
Investments	1,716,673	4,426
Receivables, net:		
Loans and advances	118,105	–
Accrued interest	5,876	–
Other	8,215	–
Other assets	12,844	–
Total assets	1,946,591	16,429
Liabilities		
Accounts payable and accrued liabilities	–	16,429
Cash overdraft with the Department of Finance	10,454	–
Unsettled securities purchased	7,924	–
Securities lending collateral	304,456	–
Notes payable	9,313	–
Other liabilities	7,074	–
Total liabilities	339,221	16,429
Net assets held in trust for employees' pension benefits	$ 1,607,370	$ –

See accompanying notes.

Government of the United States Virgin Islands

Statement of Changes in Fiduciary Net Assets

Year Ended September 30, 2007
(In thousands)

	Pension Trust Fund
Additions:	
Contributions:	
Employer	$ 60,778
Plan members	35,769
Total contributions	96,547
Investment income:	
Net appreciation of fair value of investments	140,273
Net appreciation of fair value of real estate	19,487
Interest, dividends, and other, net	58,069
Real estate – rental income	4,621
	222,450
Less investment expense	20,718
Net investment income	201,732
Other income	2,091
Total additions	300,370
Deductions:	
Benefits paid	158,871
Refunds of contributions	1,768
Administrative and operational expenses	9,839
Total deductions	170,478
Change in net assets	129,892
Net assets, beginning of year	1,477,478
Net assets, end of year	$ 1,607,370

See accompanying notes.

1. Summary of Significant Accounting Policies

The Government of the United States Virgin Islands (the Government) is an unincorporated organized territory of the United States of America (United States). The powers of the Government are derived from and set forth in the Revised Organic Act of 1954, as amended. The Government assumes responsibility for public safety, health, public housing and welfare, education, transportation and communication, and culture and recreation.

The accompanying basic financial statements of the Government have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the *Governmental Accounting Standards Board* (GASB).

The accompanying basic financial statements have been prepared primarily from accounts maintained by the Department of Finance of the Government. Additional data has been derived from reports prepared by other departments, agencies, and public corporations based on independent or subsidiary accounting systems maintained by them.

Financial Reporting Entity

The Government follows the provisions of GASB Statement No. 14, *The Financial Reporting Entity,* as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. These standards require that the Government's financial reporting entity be defined according to specific criteria. According to the standard, for financial reporting purposes, the Government is a primary government (PG). The PG includes all Government departments, agencies, boards, and organizations that are not legally separate. In addition to the PG, the financial reporting entity includes blended and discretely presented component units. Component units include all legally separate organizations for which the Government's elected officials are financially accountable, and other organizations for which the nature and significance of their relationship with the Government are such that exclusion would cause the basic financial statements to be misleading or incomplete. The criteria used to define financial accountability include appointment of a voting majority of an organization's governing body and (i) the ability of the PG to impose its will on that organization or (ii) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the PG.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

The financial statements of the following component units are included in the financial reporting entity either as blended or as discretely presented component units in accordance with GAAP:

(a) Blended Component Units

The following public benefit corporations, while legally separate from the Government, meet the criteria to be reported as part of the PG because they provide services entirely or almost entirely to the Government:

Virgin Islands Public Finance Authority (PFA)

PFA was created as a public corporation and autonomous governmental instrumentality by Act No. 5365, the Government Capital Improvement Act of 1988, with the purpose of aiding the Government in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. Under the enabling legislation, PFA has the power, among other matters, to borrow money and issue bonds and to lend the proceeds of its bonds to the Government or any governmental instrumentality. The powers of PFA are exercised by a board of directors consisting of the Governor (Chairperson), the Commissioner of Finance, the Director of the Office of Management and Budget, and two representatives of the private sector appointed by the Governor with the advice and consent of the USVI Legislature (the Legislature). PFA activities are blended within the PG because it is so intertwined with the Government that, in substance, they are the same. The PFA funds are reported as major funds, with the exception of PFA Special Revenue Fund, which is included in the other aggregate remaining fund informed.

PFA has a component unit, the West Indian Company (WICO), which is presented as an enterprise fund in the Government's basic financial statements.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(a) Blended Component Units (continued)

Tobacco Settlement Financing Corporation (TSFC)

TSFC was created in September 2001 under Act No. 6428 as a separate and independent corporation of the Government to purchase the rights, title, and interest in tobacco settlement litigation awards and to issue revenue bonds supported by the tobacco settlement rights. The responsibility for the operations of TSFC is vested in a board of directors composed of three Government officials appointed by the Governor and two private citizens. The activities of TSFC are limited to activities conducted on behalf of the Government. The TSFC is reported in the other aggregate fund information.

Complete audited financial statements of the PFA and TSFC blended component units can be obtained directly by contacting their respective administrative offices:

Administrative Offices of Blended Component Units
Virgin Islands Public Finance Authority
32-33 Kongens Gade
St. Thomas, VI 00802
Tobacco Settlement Financing Corporation
32-33 Kongens Gade
St. Thomas, VI 00802

(b) Discretely Presented Component Units

The following component units, consistent with GASB Statements No. 14 and 39, are discretely presented in the basic financial statements because of the nature of the services they provide and the Government's ability to impose its will. The component units are reported in a separate column to emphasize that they are legally separate from the PG and governed by separate boards.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Major Component Units

Virgin Islands Housing Authority (VIHA)

VIHA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 903 on June 18, 1962, with the purpose of providing housing for low-income families. Until August 2003, the powers of VIHA were exercised by a board of commissioners consisting of seven members as follows: the Commissioner of Housing and Community Renewal and six other members appointed by the Governor. In August 2003, the U.S. Department of Housing and Urban Development (HUD) determined that because of the severity of compliance violations, VIHA was declared to be in substantial default of its annual contributions contract (ACC) dated July 12, 1996 with HUD. VIHA was placed in receivership and HUD assumed possession of all assets, projects, and programs.

Given the nature of VIHA's operations and the significance of its relationship with the Government, management believes that its exclusion from the financial reporting entity would cause the Government's basic financial statements to be incomplete and misleading. Accordingly, VIHA continues to be reported as a major component unit of the Government even though the Government no longer appoints its commissioners.

Virgin Islands Port Authority (VIPA)

VIPA was created as a body corporate and politic constituting a public corporation and autonomous government instrumentality by Act No. 2375 of December 23, 1968, with the purposes of owning, operating, and managing all types of air and marine terminals. The powers of VIPA are exercised by a board of governors consisting of the Commissioner of Economic Development and Agriculture (Chairperson), the Attorney General, the Commissioner of Public Works, the Director of the Small Business Development Agency, and five other persons appointed by the Governor with the advice and consent of the Legislature.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Major Component Units (continued)

Virgin Islands Water and Power Authority (WAPA)

WAPA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 1248 of August 13, 1964, with the purpose of operating the water production and electric generation plants in the U.S. Virgin Islands. The powers of WAPA are exercised by a governing board consisting of nine members, all appointed by the Governor with the advice and consent of the Legislature, from which three are heads of cabinet-level executive departments or agencies and six other persons, who shall not be employees of the Government. WAPA is required by its bond resolutions to maintain separate audited financial statements for each system (the Electric and Water Systems).

Virgin Islands Government Hospital and Health Facilities Corporation (VIGHHFC)

VIGHHFC was created by Act No. 6012 on August 23, 1994 and became active on May 1, 1999, with the purpose of providing healthcare services and hospital facilities to the people of the U. S. Virgin Islands. The powers of VIGHHFC are exercised by a board of directors consisting of 15 members as follows: the Director of the Office of Management and Budget, the Commissioner of Finance, and 13 other members appointed by the Governor with the advice and consent of the Legislature. The VIGHHFC is composed of the Roy L. Schneider Hospital located in St. Thomas, and the Juan F. Luis Hospital and Medical Center located in St. Croix. Both entities issue separate audited financial statements. The Roy L. Schneider Hospital's financial statements include its component units: the Myra Keating Smith Community Health Center ("Health Center") of St. John, and the Charlotte Kimelman Cancer Institute ("Cancer Institute") on St. Thomas. The Health Center and Cancer Institute are legally separate organizations for which the Roy L. Schneider Hospital is financially accountable.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Major Component Units (continued)

University of the Virgin Islands (the University)

The University was organized as an instrumentality of the Government under Act No. 852 of March 16, 1962, in accordance with Section 16(a) of the Revised Organic Act of 1954, as amended. The purpose of the University is the stimulation and utilization of the intellectual resources of the people of the U.S. Virgin Islands and the development of a center of higher education. The powers of the University are exercised by a board of trustees consisting of 17 members as follows: Chairman of the Board of Education, Commissioner of Education, and the President of the University, all serving as members ex-officio, 9 other members appointed by the Governor with the advice and consent of the Legislature, two other members elected by the board of trustees, one representative of the student body, one alumnus of the University, and another of the teaching faculty. The University was not organized as a self-sustaining entity and therefore receives substantial financial and other support from the Government.

The University's financial statements include its component units: The Foundation for the University of the Virgin Islands, The Reichhold Foundation, and the University of the Virgin Islands Research and Technology Park. The Foundation for the University of the Virgin Islands is a not-for-profit corporation whose purpose is to assist and support the University in accomplishing its charitable and educational mission. The Reichhold Foundation is a not-for-profit corporation that supports the arts and provides financial assistance in operating the Reichhold Center for the Arts on St. Thomas. The University of the Virgin Islands Research and Technology Park is a nontaxable public corporation developed to promote economic growth, development, and diversification in the Virgin Islands.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Nonmajor Component Units

Virgin Islands Economic Development Authority (EDA)

EDA was created by Act No. 6390 of December 21, 2000 as a body corporate and politic constituting a public corporation and semiautonomous instrumentality of the Government. EDA was created as an umbrella authority to assume, integrate, and unify the functions of the Economic Development Commission, the Small Business Development Administration, the Government Development Bank, and the Virgin Islands Industrial Development Park Corporation. The powers of EDA are exercised by a board of directors consisting of the members of the Virgin Islands Economic Development Commission, the Director of the Virgin Islands' Bureau of Internal Revenue, and five members not employed by the Government, but appointed by the Governor with the advice and consent of the Legislature.

Magens Bay Authority (MBA)

MBA was created as a corporate instrumentality by Act No. 2085 on December 20, 1967, with the purpose of acquiring, improving, and operating parks and beaches. The powers of MBA are exercised by a board of directors consisting of the Governor and six members initially appointed by the Governor. The board of directors is responsible for the appointment and reappointment of subsequent board members except that the Governor, with the advice and consent of the Legislature may, by appointment, fill any vacancy on the board of directors remaining unfilled for sixty days.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Nonmajor Component Units (continued)

Virgin Islands Housing Finance Authority (VIHFA)

VIHFA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality of the Government by Act No. 4636 of October 20, 1981, with the purpose of stimulating low- and moderate-income housing construction and home ownership through the issuance of revenue bonds to obtain funds to be used for low-interest mortgage loans to qualified purchasers of low- and moderate-income housing. The powers of VIHFA are exercised by a board of directors consisting of the Commissioner of the Department of Housing, Parks, and Recreation (the Chairman), the Director of the Office of Management and Budget, and three persons not employed by the Government appointed by the Governor with advice and consent of the Legislature.

Virgin Islands Public Television System (VIPTS)

VIPTS was created as a body corporate and politic constituting a public corporation and autonomous instrumentality by Act No. 2364 on November 15, 1968, with the purpose of advancing the general welfare, education, cultural development, and awareness of public affairs of all the population of the U.S. Virgin Islands as well as to provide an effective supplement to the in-school education of children. The powers of VIPTS are exercised by a board of directors consisting of the Commissioner of Education, the Chairman of the Board of Education, three members appointed by the President of the Legislature, and four members, not more than two of whom should be employed by the Government and appointed by the Governor with the advice and consent of the Legislature. In addition, the Director of the Office of Management and Budget, the President of the University of the Virgin Islands, and the General Manager of VIPTS are ex-officio members of the board who are not entitled to vote.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Nonmajor Component Units (continued)

Virgin Islands Waste Management Authority (VIWMA)

VIWMA was established as a nonprofit, public, autonomous instrumentality of the Government by Act No. 6638 and approved by the Governor of the Virgin Islands on January 23, 2004. VIWMA provides environmentally sound management for the collection and disposal of solid waste in the territory, including operation and closure of landfills and wastewater collection, treatment and disposal. VIWMA is governed by a Board of Directors consisting of seven members.

Complete audited financial statements of the discretely presented component units can be obtained directly by contacting their administrative offices:

Administrative Offices

Virgin Islands Housing Authority
402 Estate Anna's Retreat
P. O. Box 7668
St. Thomas, VI 00801

Virgin Islands Port Authority
PO Box 301707
St. Thomas, VI 00803

Virgin Islands Water and Power Authority
PO Box 1450
St. Thomas, VI 00804

Virgin Islands Government Hospital and Health Facilities Corporation
9048 Sugar Estate
St. Thomas, VI 00802

University of the Virgin Islands
2 John Brewer's Bay
St. Thomas, VI 00802

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

Administrative Offices (continued)

Virgin Islands Economic Development Authority
1050 Norre Gade #5
St. Thomas, VI 00802

Magens Bay Authority
PO Box 10583
St. Thomas, VI 00802

Virgin Islands Housing Finance Authority
3202 Demarara
Frenchtown Plaza, Suite 200
St. Thomas, VI 00802

Virgin Islands Public Television System
PO Box 7879
St. Thomas, VI 00801

Virgin Islands Waste Management Authority
#1 La Grande Princesse, Suite BL1
Christiansted, VI 00820

All financial statements of the discretely presented component units have a fiscal year-end of September 30, 2007, except for WAPA and VIHA that have a year-end of June 30, 2007 and December 31, 2006, respectively.

(c) Fiduciary Component Units

The following public benefit corporation is legally separate from the Government, meets the definition of a blended component unit, and is presented in the fund financial statements along with other fiduciary funds of the Government; fiduciary funds are not reported in the government-wide financial statements.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(c) Fiduciary Component Units (continued)

Employees' Retirement System of the Government of the Virgin Islands (GERS)

GERS was created as an independent and separate agency of the Government with the purpose of administering the Government's defined-benefit pension plan established on October 1, 1959. Component units of the Government also participate in the cost-sharing, multiple employer defined benefit plan. The responsibility for the operation of GERS is vested in a board of trustees composed of seven members appointed by the Governor with the advice and consent of the Legislature.

Employee and employer contributions to GERS are recognized as additions to net assets held in trust for employees' pension benefits in the period in which employee services are performed, except for contributions pursuant to the Early Retirement Act of 1994, which are recorded as the cash is received. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan, except for benefits pursuant to sections 8(a) and 8(b) of the Early Retirement Act of 1994, which are recorded when the subsidy provided by the Government is receivable and payable.

Complete audited financial statements of this component unit can be obtained directly by contacting their administrative office:

Employees' Retirement System of the Government of the Virgin Islands
3438 Kronprindsens Gade
St. Thomas, VI 00802

1. Summary of Significant Accounting Policies (continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (that is, the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the PG and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the PG is reported separately from certain legally separate component units for which the PG is financially accountable. The statement of net assets (deficit) presents the reporting entities' nonfiduciary assets and liabilities, with the difference reported as net assets or net deficit. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (i) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

(a) Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

1. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

(b) Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Government considers most revenue to be available if collected within 90 days of the end of the current fiscal year-end. Specifically, gross receipts taxes, property taxes, and income taxes are considered to be available if collected within 30, 60, and 90 days, respectively, after the end of the current fiscal year-end. Grant revenue is considered to be available if collected within the 12 months after the end of the current fiscal year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Income taxes, gross receipts taxes, real property taxes, and grant funding are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period to the extent they are considered available. All other revenue items are considered to be measurable and available only when cash is received by the Government.

(c) Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units Financial Statements

The financial statements of the proprietary funds, fiduciary funds, and discretely presented component units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above.

1. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

(c) Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units Financial Statements (continued)

Each proprietary fund has the option under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* to elect and apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless these conflict with a GASB pronouncement. The PG and most blended and discretely presented component units have elected not to apply FASB pronouncements issued after November 30, 1989 for its proprietary fund types. VIPA has elected to follow the FASB's pronouncements issued after November 30, 1989.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Fund Accounting

The Government reports its financial position and results of operations in funds, which are considered separate accounting entities and discrete presentations of those component units, which are not required to be blended. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. GASB No. 34, *Basic Financial Statements – and Management's Discussions and Analysis – for State and Local Governments*, establishes criteria (percentage of the assets, liabilities, revenue, or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. Indirect costs are automatically allocated and reported in the program expense for each fund. Nonmajor funds are combined in a single column in the fund financial statements. The Government reports the following major funds:

1. Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

(a) Governmental Funds

The Government reports the following major governmental funds:

- General Fund – The General Fund is the Government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- PFA Debt Service Fund – The PFA Debt Service Fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by PFA on behalf of the Government.

- PFA Capital Projects Fund – The PFA Capital Projects Fund accounts for bond proceeds of debt issued by the PFA on behalf of the Government. The bond proceeds have been designated for certain necessary public safety and capital development projects which are accounted for in this fund.

(b) Proprietary Funds

These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public. The government reports the following major proprietary fund:

- West Indian Company – WICO, a component unit of PFA, accounts for the activities of a cruise ship pier and shopping mall complex on the island of St. Thomas.

(c) Fiduciary Funds

Fiduciary funds are used to account for assets held by the Government in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The following are the Government's fiduciary funds:

- Pension Trust Fund – The pension trust fund accounts for the activities of GERS, which accumulates resources for pension benefit payments to qualified employees.

- Agency Fund – The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Government follows the practice of pooling cash. The balance in the pooled cash accounts is available to meet current operating requirements, and any excess is invested in various interest-bearing accounts and time deposits with eligible depository institutions.

Cash equivalents of the proprietary funds and discretely presented component units consist of demand accounts, money market accounts, certificates of deposit with maturities of not more than 90 days from the date of acquisition, short-term U.S. government and its agencies' obligations and repurchase agreements with a U.S. commercial bank maturing within three months and collateralized by U.S. government obligations. Cash and cash equivalents of the discretely presented component units are maintained in separate bank accounts from those of the PG, in their own names. By law, banks, or trust companies designated as depository of public funds of the Government are to maintain corporate surety bond or pledge collateral satisfactory to the Commissioner of Finance to secure all governmental funds deposited.

Investments

The PG and its component units follow the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*. GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk.

Investment Policies

Investment policies of the PG, its blended component units, major funds, and major component units are as follows:

- ***Primary Government Investment Policies –*** Title 33, Chapter 117 of the Virgin Islands Code (V.I. Code) authorizes the Government to invest in U.S. Government and its agencies' obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, and corporate debt and equity obligations. As of September 30, 2007, the General Fund, a non-major governmental fund, and an agency Fund had invested in certificates of deposit with two local banks. Investments are reported at fair value.

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

- ***Public Finance Authority Investment Policies*** – Under GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for Most External Investment Pools*, investments of the PFA are reported at fair value. Various bond resolutions of the PFA restrict investments to direct obligations of the U.S. Government, territories, possessions and states, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. The PFA has retained investment managers and investments are held in trust by a commercial bank on behalf of the Authority. The PFA handles investments for two major governmental funds of the Government: the PFA Debt Service Fund and the PFA Capital Projects Fund.

- ***Tobacco Settlement Financing Corporation Investment Policies*** – Various bond resolutions of this blended component unit restrict investments to direct obligations of the U.S. Government, territories, possessions and states, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. The Authority has retained investment managers and investments are held in trust by a commercial bank on behalf of the Authority. Investments are reported at fair value in the non-major governmental fund of the Government.

- ***West Indian Company Limited Investment Policies*** – This blended business-type major fund of the Government maintains an investment policy that 1) limits investments in bonds to a maximum remaining maturity of 30 years (or estimated average life on mortgage-backed issues), 2) limits fixed income securities to a maximum of 40% and a minimum of 30% of the overall assets of the WICO portfolio, 3) limits corporate bond exposure to 45% of the fixed income portfolio, and 4) has no provision which limits or restricts investments in U.S. Government Treasury or Agency issues. WICO reports investments at fair value.

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

- ***Pension Trust Fund Investment Policies*** – The board of trustees of GERS have enacted policies that limit investments in certain investment categories and provide requisites for the institutions with which investment transactions may be entered into. Under those policies, GERS may invest in U.S. Government and agencies obligations, bonds or notes of any state, territory or possession of the United States, municipal bonds and obligations, foreign bonds, bonds of domestic railroad corporations, public utility bonds, industrial corporate bonds or trust certificates, common and preferred shares of foreign and domestic corporations, mutual funds, mortgage or personal loans to GERS members or retirees, and mortgage and asset-backed securities. Investments in bonds are subject to rating restrictions of BBB and may not exceed 2% of the portfolio. Investments in stock of a single corporation may not exceed 1% of the market value of the fund, or exceed 1% of the outstanding stock of the corporation. The aggregate amount of investments in stocks may not exceed 60% of the total investments of GERS. Any investment of 20% or more of the aggregate value of the portfolio must be approved by two-thirds of the membership of the board of trustees. The investments are administered by several professional investment managers and are held in trust by a commercial bank on behalf of the system.

  Investments in equity securities in the GERS pension trust fund are reported at quoted market values. Shares of mutual funds are reported at the net asset value of shares held by GERS at year-end. Purchases and sales are recorded on a trade-date basis. Realized gains and losses on securities are determined by the average cost method.

  Investment by GERS in the Havensight Mall is carried at original purchase price plus appreciated value. Investment by GERS in GERS facilities in St. Thomas and St. Croix are carried at historical cost net of accumulated depreciation and amortization on the portion of the facilities occupied by GERS.

- ***Virgin Islands Water and Power Authority Investment Policies*** – This major component unit is authorized under bond resolutions and the V.I. Code to invest in open accounts, time deposits, certificates of deposit, repurchase agreements, obligations of the United Stated government, and obligations of any state within the United States, mutual funds, and corporate commercial paper. Investments are reported at fair value.

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

- ***Virgin Islands Port Authority Investment Policies*** – This major component unit is authorized under bond resolutions and the V.I. Code to invest in open accounts, time deposits, certificates of deposit, repurchase agreements, obligations of the United Stated government, and obligations of any state within the United States, mutual funds, and corporate commercial paper. Investments are reported at fair value.

- ***University of the Virgin Islands Investment Policies*** – The board of trustees of this major component unit is responsible for the management of the University's investments which consist of U.S. Government securities and securities backed by the U.S. Government or its agencies and instrumentalities, common and preferred stocks, and mutual funds. Currently, the University's policies do not address risks associated with investments.

- ***Virgin Islands Government Hospital and Health Facilities Corporation Investment Policies*** – The board of trustees of this major component unit have not developed a formal investment policy. At September 30, 2007, investments were comprised of certificates of deposit which were reported at fair value, and a 40% interest in a U.S. Virgin Islands corporation that provides radiology services. The investment in the U.S. Virgin Islands Corporation is accounted for under the equity method.

- ***Virgin Islands Housing Authority Investment Policies*** – This major component unit is required by the U.S. Department of Housing and Urban Development ("HUD") to invest excess funds in obligations of the United States, certificates of deposit, or any other federally insured investment. HUD requires that deposits be fully collateralized at all times, and may be held by an unaffiliated bank or trust company for the account of the VIHA.

Receivables

Taxes receivable represent amounts owed by taxpayers for individual and corporate income taxes, gross receipts taxes and real property taxes. Tax revenue is recognized in the governmental fund financial statements when they become both measurable and available based on actual collections during the months subsequent to the fiscal year end.

Federal government receivables represent amounts owed to the Government for reimbursement of expenditures incurred pursuant to federally funded programs.

1. Summary of Significant Accounting Policies (continued)

Receivables (continued)

Accounts receivable are reported net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience and current economic conditions.

Subject to the provisions of the retirement law and subject to rules and regulations prescribed by the board of trustees of GERS, participants of the Pension Trust Fund have the right of obtaining loans from the Pension Trust Fund to finance a home, automobile, or other personal needs. The maximum mortgage loan that could be granted to members who have been contributing to the Pension Trust Fund for at least five years is $250,000. The interest rate on new first mortgages was 8% and on second mortgages, 9% throughout the year. Members may also borrow up to $50,000 to buy land.

Members who have contributed to the Pension Trust Fund for at least five years can borrow up to $18,000 for the purchase of an automobile. The loans bear interest at 11% with a maximum term of four years. A member may also borrow up to 75% of their contributions to the Pension Trust Fund to a maximum borrowing of $20,000 as a personal loan. The interest rate offered on personal loans was 9% throughout the year.

Member loans in the pension trust fund are valued at the outstanding loan principal balance less an allowance for estimated loan losses.

The accounts receivable from non-governmental customers of the discretely presented component units are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts receivable from the PG and other component units that arise from service charges do not have significant allowances for uncollectible accounts.

Inventories

In governmental fund types, the costs of inventories are recorded as expenditures when purchased. The proprietary fund types and component units recognize an asset when the inventory is purchased and an expense when it is consumed or sold. Inventories in proprietary fund types are primarily valued at the lower of cost or market using the first-in, first-out method.

1. Summary of Significant Accounting Policies (continued)

Restricted Assets

Restricted assets in the PG and discretely presented component units are set aside primarily for the payment of bonds, notes, construction funds, unemployment benefits, and other specific purposes.

Capital Assets

Capital assets, which include land, land improvements, buildings, building improvements, machinery and equipment, construction in progress, and infrastructure assets are reported in the applicable governmental, business-type activities, and component unit columns in the government-wide financial statements as well as in the applicable proprietary funds reported in the fund financial statements.

The PG defines capital assets as assets that have an initial, individual cost and useful lives of: (i) $5,000 for personal property with a useful life of five years; (ii) $50,000 for buildings and building improvements with an estimated useful lives of 40 and 20 years, respectively; (iii) $100,000 for land improvements with an estimated useful life of 20 years; and (iv) $200,000 for infrastructure with an estimated useful life of 30 years. The value of all land acquired is capitalized.

Capital assets purchased or acquired are carried at historical cost or normal cost. The normal costing method to estimate cost based on replacement cost indexed by a reciprocal factor of the price increase from the appraisal date to the actual or estimated acquisition date was used to estimate the historical cost of certain land, buildings, and building improvements because invoices and similar documentation was no longer available in certain instances. Donated capital assets are recorded at fair value at the time of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs are capitalized during the construction period only for business-type activities and various component units. The costs of routine maintenance and repairs that do not add value to the assets or materially extend asset lives are expensed as incurred.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units' financial statements.

1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Capital assets of the PG, excluding land and construction in progress, are depreciated on the straight-line method over the assets' estimated useful lives.

The capital assets of the component units are recorded in accordance with the applicable GASB and FASB statements and under their own individual capitalization thresholds. The estimated useful lives of capital assets reported by the component units are (i) 7 to 50 years for buildings and building improvements; (ii) 20 to 40 years for airports and marine terminals; and (iii) 3 to 20 years for vehicles and equipment.

Tax Refunds Payable

During the calendar year, the Government collects individual income taxes through withholdings and payments from taxpayers. At September 30, the Government estimates the amount owed to taxpayers for overpayments during the first nine months of the calendar year. These estimated amounts and the actual tax refunds claimed for prior years but not paid at year-end are recorded as tax refunds payable and as a reduction of tax revenue.

Deferred and Unearned Revenue

Deferred revenue at the governmental fund level arises when potential revenue neither meets measurable nor available criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Government has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Government has a legal claim to the resources, deferred revenue is removed from the balance sheet and the revenue is recognized. Unearned revenue at the government-wide and proprietary fund levels arises only when the Government receives resources before it has a legal claim to them.

1. Summary of Significant Accounting Policies (continued)

Long-term Debt

The liabilities reported in the government-wide financial statements include the Government's bonds, long-term notes, and other long-term liabilities including: compensated absences, retroactive union arbitration salaries, landfill closure and post closure, and legal claims. Bond premiums and discounts, losses incurred on bond refundings, and debt issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts and deferred refunding losses.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Losses incurred on bond refundings are not recognized in the fund financial statements as the corresponding liability for the bonds is only recorded in the government-wide financial statements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets

Net assets are reported in three categories:

- ***Invested in Capital Assets, Net of Related Debt –*** These consist of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Debt pertaining to significant unspent debt proceeds is not included in the calculation of invested in capital assets, net of related debt. The unspent portion of the debt is presented, net of the related debt, as restricted net assets for capital projects.

1. Summary of Significant Accounting Policies (continued)

Net Assets (continued)

- ***Restricted Net Assets* –** These result when constraints placed on net assets' use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- ***Unrestricted Net Assets*** – These consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Government's policy to use restricted resources first, then the unrestricted resources as they are needed.

Postemployment Benefits

In addition to the pension benefits described in note 13, the Government provides postretirement healthcare benefits, in accordance with the V.I. Code to all employees who retire from the Government on or after attaining age 55 with at least 30 years of service; except for policemen and firemen who can retire with at least 20 years of service. As of September 30, 2007, approximately 4,100 retirees meet those eligibility requirements. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree and the Government. The Government contributes three-fourths of the healthcare benefits' premiums. The Government does not accrue a liability for postemployment benefit costs, which are recognized on a pay-as-you-go basis. During the year ended September 30, 2007, the cost of providing postretirement healthcare benefits amounted to approximately $14.7 million.

1. Summary of Significant Accounting Policies (continued)

Compensated Absences

The vacation policy of the Government provides for the accumulation of four, six, or eight hours for each full biweekly pay period depending on the time of entry into government service. At the beginning of each calendar year, vacation leave is limited to 480 hours (60 days). However, the excess of 480 hours is considered by GERS for service credit towards the employees' retirement. This vacation policy does not apply to professional educational personnel of the Virgin Islands Department of Education, who receive compensation during the school breaks. Upon retirement, an employee receives compensation for unused vacation leave at the employee's base pay rate pay. As of September 30, 2007, the Government had accrued compensated absences amounting to approximately $47 million, including related benefits, of which $28 million was included in current liabilities in the government-wide financial statements.

Employees accumulate sick leave at a rate of four hours for each full biweekly pay period up to a maximum of 180 days. Separated employees do not receive payment for unused sick leave, therefore, a provision for accumulated sick leave is not required.

Compensated absences accumulation policies for the blended component units and discretely presented component units vary from entity to entity, depending upon negotiated bargaining agreements and other factors agreed upon between the management of these entities and its employees.

Interfund and Intra-entity Transactions

The Government has the following types of transactions among funds:

- ***Interfund Transfers*** – Legally required transfers are reported as interfund transfers in (out) when incurred.

- ***Intra-entity Transactions*** – These are transactions between the PG and its component units, and among the component units. Transfers between the PG and its blended component units are reported as interfund transfers, except for transfers within the same fund type. Similarly, receivables and payables between the PG and its blended component units are reported as amounts due to, and due from other funds. Transfers between the PG and discretely presented component units (and among those component units) are reported separately as revenue and expenses or expenditures. Amounts owed to and from discretely presented component units by the PG are reported separately from interfund payables and receivables as due from (to) component units, net of allowance for estimated uncollectible amounts.

1. Summary of Significant Accounting Policies (continued)

Risk Management

With some exceptions, the Government does not carry general casualty or liability insurance coverage on its properties or the acts of its employees, relying instead on self-insurance and/or statutory liability limitations. However, as a result of an agreement with the Federal Emergency Management Agency (FEMA), with respect to properties and structures damaged by Hurricane Hugo and repaired with federal disaster assistance funds, the Government has obtained insurance for certain hospitals, schools, and other insurable public buildings that were repaired with such federal assistance. The Government purchases commercial insurance covering physical losses or damages against its property. The limit of liability for all risks, excluding earthquake, windstorm, and flood, is $1 million for each and every occurrence except for windstorm and flood losses, which has a $45 million limit. For physical losses arising from earthquake, the insurance policy has a limit of $100 million for each and every occurrence and in the annual aggregate. Also, the Government has enterprise funds that provides workers' compensation to both public and private employees and medical practice insurance for doctors employed by the Government.

The Government does not maintain accounting records in support of individual claim liabilities or for claims incurred but not reported (IBNR). Accordingly, workers' compensation and medical malpractice claims are accounted for on a cash basis. Therefore, the basic financial statements do not include a liability for workers' compensation and medical malpractice claims outstanding, including related IBNR, as of September 30, 2007, as required by GAAP.

Certain component units are exposed to various risks of loss related to their specialized operations, which are mitigated by purchasing commercial insurance.

1. Summary of Significant Accounting Policies (continued)

Future Adoption of Accounting Requirements

GASB has issued the following statements that the Government or its component units have not yet adopted:

GASB Statement Number		Adoption Required in Fiscal Year
45	Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions	2008
48	Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues	2008
49	Accounting and Financial Reporting for Pollution Remediation Obligations	2009
50	Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27	2008
51	Accounting and Financial Reporting for Intangible Assets	2010
52	Land and Other Real Estate Held as Investments by Endowments	2009
53	Accounting and Financial Reporting for Derivative Instruments	2010
54	Fund Balance Reporting and Governmental Fund Type Definitions	2011

The impact of these statements has not yet been determined.

Use of Estimates

Management of the Government has made a number of estimates and assumptions relating to the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

2. Component Units

The basic financial statements include the financial statements of the following discretely presented component units:

- Virgin Islands Housing Authority
- Virgin Islands Port Authority
- Virgin Islands Water and Power Authority
- Virgin Islands Government Hospital and Health Facilities Corporation
- University of the Virgin Islands
- Virgin Islands Economic Development Authority
- Magens Bay Authority
- Virgin Islands Housing Finance Authority
- Virgin Islands Public Television System
- Virgin Islands Waste Management Authority

2. Component Units (continued)

Condensed financial information as of September 30, 2007 of all discretely presented component units follows (expressed in thousands):

Information on net assets	Virgin Islands Housing Authority	Virgin Islands Port Authority	Virgin Islands Water and Power Authority: Electric System	Virgin Islands Water and Power Authority: Water System	Virgin Islands Government Hospital and Health Facilities Corporation: Roy L. Schneider Hospital	Virgin Islands Government Hospital and Health Facilities Corporation: Juan F. Luis Hospital	University of the Virgin Islands	Other Entities	Total Component Units
Assets:									
Current assets	$ 11,698	$ 21,089	$ 78,499	$ 17,579	$ 22,116	$ 11,768	$ 60,890	$ 47,457	$ 271,096
Due from primary government	–	2,438	–	–	–	–	997	–	3,435
Due from federal government	679	5,126	–	–	–	920	5,711	–	12,436
Restricted assets	4,917	8,835	96,365	8,983	–	3,390	19,902	20,075	162,467
Capital assets, net	58,278	267,328	213,785	52,515	75,451	39,197	50,504	58,955	816,013
Deferred expenses	–	1,463	13,189	1,048	–	–	3,581	46	19,327
Total assets	75,572	306,279	401,838	80,125	97,567	55,275	141,585	126,533	1,284,774
Liabilities:									
Current liabilities	6,791	8,124	67,617	6,137	24,534	22,691	12,669	12,859	161,422
Due to primary government	–	–	–	–	9,871	26,832	–	4,243	40,946
Due to federal government	2,573	–	5,300	–	–	–	–	–	7,873
Bonds payable	–	40,129	206,850	29,836	–	–	42,660	4,145	323,620
Loans payable	–	1,514	15,000	–	–	–	2,046	2,868	21,428
Other noncurrent liabilities	3,262	–	–	–	507	1,026	58	26,966	31,819
Total liabilities	12,626	49,767	294,767	35,973	34,912	50,549	57,433	51,081	587,108
Net assets (deficit):									
Invested in capital assets, net of related debt	58,278	227,199	71,212	23,340	74,414	37,742	21,710	49,186	563,081
Restricted	4,842	8,835	26,718	8,169	1,334	–	43,973	6,676	100,547
Unrestricted (deficit)	(174)	20,478	9,141	12,643	(13,093)	(33,016)	18,469	19,590	34,038
Total net assets	$ 62,946	$ 256,512	$ 107,071	$ 44,152	$ 62,655	$ 4,726	$ 84,152	$ 75,452	$ 697,666

3. Stewardship, Compliance, and Accountability

Budgetary Process and Control

The V.I. Code requires the Governor to submit an annual balanced executive budget to be adopted by the Legislature for the ensuing fiscal year. The Governor is required by law to submit to the Legislature the annual executive budget no later than May 30. The annual executive budget is prepared on a GAAP basis, except for encumbrances, which are reported as expenditures for budget reporting purposes, by the Virgin Islands Office of Management and Budget (OMB) working in conjunction with other Government offices and agencies. If the annual executive budget has not been approved before the commencement of any fiscal year, then the appropriations for the preceding fiscal year, insofar as they may be applicable, are automatically deemed reappropriated item by item. The annual executive budget, which includes those funds of the Government subject to appropriation pursuant to law, is composed of all proposed expenditures and estimated revenue for the Government. The Legislature enacts the annual executive budget through passage of lump-sum appropriations for each department. The Legislature may add, change, or delete any items in the annual executive budget proposed by the Governor. Upon passage by the Legislature, the annual executive budget is submitted to the Governor, who may veto the budget partially or in its entirety and return it to the Legislature with his objections. A veto by the Governor can be overridden only by a two-thirds majority of all members of the Legislature. The Legislature is obligated by law to pass a final annual executive budget no later than September 30, the last day of the fiscal year. Supplemental budgetary appropriations bills that are signed into law may be created during the year without the identification of a specific revenue source to finance them. In August 1999, the Legislature enacted the Financial Accountability Act (Act No. 6289). The purpose of the Financial Accountability Act is to require by law that the budget of the Government be balanced each year, and the appropriations in each fiscal year not exceed a verifiable revenue source.

Once the budget has been enacted, fiscal control over expenditures made pursuant thereto is exercised by the Governor through the Director of OMB. During any fiscal year in which the resources available to the Government are not sufficient to cover the appropriations approved for such year, the Governor, through the Director of OMB, may take administrative measures to reduce expenditures. The Governor may also make recommendations to the Legislature for new taxes or any other necessary action to meet the estimated deficiency.

3. Stewardship, Compliance, and Accountability (continued)

Budgetary Process and Control (continued)

Budgetary control is exercised at the department level through an allotment process. Encumbrances and expenditures cannot exceed total allotment amounts. The Government's department heads may make transfers of appropriations within the department. Appropriation transfers between departments and supplemental appropriations require executive and legislative branch approval. Unencumbered and unexpended appropriations, not designated, lapse at fiscal year-end. Also, encumbrances are established at fiscal year-end to pay certain expenditures for travel and utility costs payable against current year appropriation authority, but to be expended in the subsequent year.

Budget/GAAP Reconciliation

The following schedule presents a comparison of the General Fund legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of timing and entity difference in the excess of revenue and other financing sources over expenditures and other financing uses for the year ended September 30, 2007 is presented below (expressed in thousands):

Excess of expenditures and other financing uses over revenues – budget basis	$	(11,807)
Entity difference – excess of revenue and other financing uses over expenditures and other financing uses – activities with budgets not legally adopted		(7,974)
Excess of expenditures and other financing sources over revenues – GAAP basis (net change in fund balance)	$	(19,781)

Controls over spending in special revenue funds and non-appropriated funds are maintained at the Department of Finance by use of budgets and available resources (revenues). The Government makes appropriations to authorize expenditures for various capital projects. Budgets for capital projects normally remain available until completion of the project unless modified or rescinded.

4. Cash and Cash Equivalents

Primary Government

At September 30, 2007, the PG held $278.8 million in unrestricted cash and cash equivalents, and $27.0 million in restricted cash and cash equivalents. All of the PG's bank balances were fully collateralized.

Pension Trust Fund

GERS considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. At September 30, 2007, GERS held $35 million in money market accounts, $25.8 million in an interest bearing deposit, and $24 million in operational accounts.

Component Units

At September 30, 2007, component units held $75.8 million in unrestricted cash and cash equivalents and $53.1 million in restricted cash and cash equivalents, of which $34.9 million was not insured, bonded or collateralized as required for public funds of the Government.

5. Investments

Primary Government Investments

Following is a summary of the investments of the PG, categorized by investment type and maturity as of September 30, 2007:

Primary Government Investments
(in thousands)

		Maturity (in years)		
	Fair Value	**Less Than 1 Year**	**1 to 5 Years**	**Over 5 Years**
Investments with contractual maturities				
Certificates of Deposit	$ 216,399	$ 216,399	$ –	$ –
Portfolio investments				
Commercial Paper	67,022	66,686	–	336
Corporate Bonds	88	13	75	–
U.S. Government Agencies & Notes	18,547	18,297	250	–
Total investments with contractual maturities	302,056	$ 301,395	$ 325	$ 336
Investments without contractual maturities				
Equity Securities	49			
Money Market & Mutual Funds	209,670			
Total Primary Government Investments	$ 511,775			

Interest Rate Risk. Interest rate risk represents the exposure to fair value losses arising from increasing interest rates. The PG does not have a formal investment policy that limits investment maturities as a means of managing such exposure. As a means of keeping the interest rate risk low, virtually all investments held by the PG are short term in nature.

5. Investments (continued)

Primary Government Investments (continued)

Credit Risk. The authorizing legislation of the PG does not limit investments by credit rating categories. Authorizing legislation does limit the investment choices of the PG to: direct obligations or obligations guaranteed by the United States, obligations of states, territories, possessions and commonwealths of the United States, obligations of international banking institutions, repurchase agreements, investment contracts, certificates of deposit, guaranteed investment contracts, shares in mutual funds, investment companies, corporate commercial paper, money market portfolio investments and investment pools.

At September 30, 2007, the PG's investments in money market funds were rated AAAm by Standard & Poor's, and Aaa by Moody's Investor Service; PG's investment in commercial paper were rated A-1 or A-1+ by Standard & Poor's, and P-1 by Moody's Investor Services; and the PG's investment in U.S. government agencies were rated AAA by Standard & Poor's and Aaa by Moody's Investor Services.

Concentration of Credit Risk. The PG places no limit on the amount that may be invested in one issuer. At September 30, 2007, more than 5% of the PG's investments were invested in: Banco Popular de Puerto Rico Certificates of Deposit (27.71%), First Bank Certificates of Deposit (14.58%), Morgan Stanley Dean Witter Commercial Paper (8.08%), Fidelity Treasury Money Market #696, Class 3 (11.37%), Goldman Financial Securities Money Market #474 (20.0%), and Goldman Financial Securities Money Market #465 (5.32%).

Custodial Credit Risk. The PG does not have a custodial risk policy. This is the risk that the PG will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2007, $294.3 million of investments were held in the name of The Bank of New York Trust Company, N.A, as trustee for the Government, and $1.1 million were held in the name of Merrill Lynch, as trustee for the Government.

5. Investments (continued)

Pension Trust Fund Investments

Following is a summary of pension trust fund investments as of September 30, 2007:

Pension Trust Fund Investments
(In thousands)

	Fair Value	Maturity (in years) Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Investments with contractual maturities					
US government and agency obligations	$ 4,873	$ 790	$ 1,810	$ 2,273	$ –
US Treasury notes	88,873	12,425	69,781	6,667	–
US Treasury bonds	31,511	–	–	6,096	25,415
Corporate obligations	58,293	2,965	23,651	17,685	13,992
Foreign bonds	8,321	–	–	8,321	–
Government obligations - foreign	69,920	20,878	31,903	17,139	–
Mortgage and asset backed securities	171,433	675	3,083	1,669	166,006
Total investments with contractual maturities	433,224	$ 37,733	$ 130,228	$ 59,850	$ 205,413
Investments without contractual maturities					
Equity Securities					
Common stocks - U.S.	696,872				
Common stocks - foreign	122,870				
Preferred stocks - foreign	1,278				
Real Estate Investments					
Real estate investment trusts	3,957				
Havensight Mall - US Virgin Islands	80,000				
GERS Complex - US Virgin Islands	19,854				
Limited partnership	51,000				
Securities lending short-term collateral investment pool	304,456				
Mutual funds	3,162				
Total pension fund investments	$ 1,716,673				

5. Investments (continued)

Pension Trust Fund Investments (continued)

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. GERS does not have a specific policy to manage interest rate risk, but requires investment managers to diversify by issue, maturity, sector, coupon, and geography. Investment managers retained by GERS follow specific investment guidelines and are evaluated against specific benchmarks that represent their investment style. Any exception from general guidelines requires approval from the GERS's board of trustees.

Credit Risk. GERS investment policy is designed to minimize credit risk by restricting authorized investments to only those investments permitted by statute, subject to certain additional limitations. These additional limitations consist of prohibitions against investments in derivative securities, options, futures or short positions. GERS investment policy allows investments in mortgage pass-through securities. The credit ratings of GERS debt and equity securities include:

5. Investments (continued)

Pension Trust Fund Investments (continued)

Pension Trust Fund Investment Credit Ratings
(in thousands)

		Credit Ratings	
	Fair Value	**Standard & Poor**	**Moody's**
US government and agency obligations	$ 4,873	AAA	AAA
US Treasury notes	88,873	AAA	AAA
US Treasury bonds	31,511	AAA	AAA
Corporate obligations	58,293	BBB- to AAA	BAA1 to AAA
Foreign bonds	6,922	AAA	Not Rated
Foreign bonds	1,399	AAA	AAA
Government obligations - foreign	10,171	AA	AA1
Government obligations - foreign	45,892	AAA	AAA
Government obligations - foreign	13,857	Not Rated	Not Rated
Mortgage and asset backed securities	783	A-	A3
Mortgage and asset backed securities	602	A+ to AA+	AA1 to AA2
Mortgage and asset backed securities	158,402	AAA	AAA
Mortgage and asset backed securities	11,646	Not Rated	Not Rated
Common stocks- US	696,872	Not Rated	Not Rated
Common stocks - foreign	122,870	Not Rated	Not Rated
Preferred stocks - foreign	1,278	Not Rated	Not Rated
Real estate investment trust	3,162	Not Rated	Not Rated
Real estate investment trust	795	B-	Not Rated
Real estate holdings - US Virgin Islands	99,854	Not Rated	Not Rated
Limited partnership	51,000	Not Rated	Not Rated
Securities lending short-term collateral investment pool	304,456	Not Rated	Not Rated
Mutual funds	3,162	Not Rated	Not Rated
Total investments	$ 1,716,673		

5. Investments (continued)

Pension Trust Fund Investments (continued)

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the GERS investment in a single issuer of securities. GERS investment policies place limitations on portfolio composition by investment type to limit its exposure to concentration of credit risk. The investment policy provides that a minimum of 60% of GERS investment portfolio be invested in equity stocks and a minimum of 40% be invested in fixed income investments. At September 30, 2007, there were no investments in any one issuer that represent 5% or more of total investments.

Custodial Credit Risk. The custodial credit risk for investments is the risk that, in the event of the failure of a counterparty to a transaction, GERS will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. With the exception of underlying securities on-loan secured by non-cash collateral, the entire investment portfolio of GERS was held with a single third-party custodian on behalf of GERS as of September 30, 2007.

The fair value of underlying securities on-loan secured by non-cash collateral amounted to $5.0 million at September 30, 2007.

Foreign Currency Risk. Foreign currency risk is the risk of holding investments in foreign currencies and the risk that those foreign currencies may devalue. As of September 30, 2007, $202.3 million of GERS' portfolio was held in foreign currencies, with $55.1 million held in Euro, $22.8 million held in Japanese yen, $33.7 million held in pound sterling, $16.6 million held in Australian dollars, $9.7 million held in Swiss francs, $13.2 million held in Swedish krona, $10.7 million held in Singapore dollars, $21.4 million held in Canadian dollars, and $19.1 million in other currencies. GERS entered into various forward currency exchange contracts to manage exposure to changes in foreign currency exchange rates, and to facilitate the settlement of foreign security transactions. Risks associated with foreign exchange contracts include the movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contract. Changes in the market value of open and closed forward contracts are reported with interest, dividends, and other income or losses reported at fair value. During the fiscal year ended September 30, 2007, GERS reported $34.2 million in forward currency purchases, $35.3 million in forward currency sales, and a foreign exchange loss of $2.3 million.

5. Investments (continued)

Pension Trust Fund Investments (continued)

Securities Lending Transactions. The Government's statutes permit GERS to participate in securities lending transactions, and GERS has, via a securities lending authorization agreement (the Agreement), authorized State Street Bank and Trust Company (the Custodian) to lend its securities to broker-dealers and banks pursuant to a form of loan agreement. Lent securities are collateralized with cash, securities issued or guaranteed by the U.S. government, or irrevocable bank letters of credit. GERS does not have the ability to pledge or sell collateral securities delivered absent a borrower default. No restrictions were imposed during 2007 as to the amount of loans the Custodian can make on behalf of GERS. Under the terms of the Agreement the Custodian must indemnify the Government for losses attributable to violations by the Custodian under the "standard of care" clause described in the Agreement. There were neither such violations during fiscal year 2007 nor losses resulting from the default of the borrowers or the Custodian.

Loans are generally terminable on demand. The collateral received shall, in the case of loaned securities denominated in U.S. dollars or whose primary trading market is located in the U.S. or sovereign debt issued by foreign governments, have a market value of 102% of the market value of the security for domestic borrowers and 105% for foreign borrowers at the inception of the securities lending transaction. Such collateral should be kept at a minimum of 100% of the market value of the security for all borrowers throughout the outstanding period of the transaction. At September 30, 2007, approximately $305.2 million of U.S. government and agency securities, fixed income, and equity corporate securities were on loan. The cash collateral received with a corresponding liability of an equal amount, is recorded in the statement of fiduciary net assets. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a collective investment pool. As of September 30, 2007, such investment pool had a weighted average maturity of 40 days and an average expected maturity of 409 days. Because the loans were terminable on demand, their duration did not generally match the duration of the investments made with cash collateral.

5. Investments (continued)

Component Unit Investments

Following is a summary of component unit investments, and maturities, as of September 30, 2007:

Component Unit Investments
(in thousands)

	Fair Value	Maturity (in years) Less Than 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years
Investments with contractual maturities					
Certificates of Deposit	$ 3,524	$ 3,524	$ –	$ –	$ –
Mortgage backed securites	4,020	–	–	–	4,020
Corporate Bonds	5,174	20	26	72	5,056
U.S. Government Agencies & Notes	101,494	7,187	92,629	683	995
Total investments with contractual maturities	114,212	$ 10,731	$ 92,655	$ 755	$ 10,071
Investments without contractual maturities					
Common stock	9,372				
Mutual funds	27,006				
Other investments	677				
Total component unit investments	$ 151,267				

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The component units of the Government have not established formal policies which limit investment maturities as a means of managing such exposure and have some exposure to interest rate risk.

5. Investments (continued)

Component Unit Investments (continued)

Credit Risk. The authorizing legislation of the component units does not limit investments by credit rating categories. Authorizing legislation limits the investment choices of the component units, as described in Note 1. The University of the Virgin Islands investments include corporate bonds amounting to $2.3 million with a rating of A-AAA by Standard & Poor's.

Concentration of Credit Risk. The component units have no limits on the amount that may be invested in one issuer of securities. As of the fiscal year-end, the component units reported $101.5 million in U.S. Government and agency securities issued or explicitly guaranteed by the U.S. government, and $27 million in mutual funds which are excluded from concentration of credit risk.

Custodial Credit Risk. The component units of the Government do not have custodial credit risk policies. This is the risk that the component unit will not be able to recover the value of its investments that are held in the possession of an outside party. At September 30, 2007, $3.9 million of investments held by VIPA were held in the name of HSBC Bank USA as a trustee on behalf of VIPA.

6. Receivables

Primary Government Receivables

Receivables for governmental funds at September 30, 2007 consist of the following (expressed in thousands):

	General	PFA Debt Service	Total
Income taxes	$ 230,955	$ –	$ 230,955
Real property taxes	18,767	–	18,767
Gross receipts taxes	–	91,906	91,906
Tax receivables	249,722	91,906	341,628
Less allowance for doubtful accounts	(67,566)	(41,496)	(109,062)
Net tax receivables	$ 182,156	$ 50,410	232,566
Other long-term receivables – tobacco settlement rights			1,878
Total receivables reported in the statement of net assets (deficit)			$ 234,444

The Naval Appropriations Act created a separate tax structure for the U.S. Virgin Islands that mirrors the Internal Revenue Code of 1986, as amended. Income taxes are due from every corporation, partnership, individual, association, estate, or trust that meets the filing requirements of the U.S. Internal Revenue Code. A U.S. taxpayer who is a permanent resident of the U.S. Virgin Islands satisfies his Virgin Islands income tax obligations by filing his return with and paying income taxes to the Government. Virgin Islands residents are taxed by the Virgin Islands on their world-wide income. A nonresident of the U.S. Virgin Islands pays income taxes on his U.S. Virgin Islands source income to the Government. The revenue is recognized in the General Fund in the fiscal period for which the income tax return was filed. The revenue from income tax withholding and estimated payments are recognized in the General Fund as collected, net of estimated tax refunds.

Corporate income taxes are due by the 15th day of the third month following the close of the fiscal year and become delinquent if not paid on or before the due date.

6. Receivables (continued)

Primary Government Receivables (continued)

Partnership and trust income taxes are due by April 15 of the following year for which the income tax was levied. Trust income taxes must be paid by the tax filing date.

Property taxes are levied each calendar year on all taxable real property located in the U.S. Virgin Islands. The revenue is recognized in the General Fund in the fiscal period for which the property tax was levied, provided the tax is collected within 60 days subsequent to fiscal year-end, unless the facts justify a period greater than 60 days.

The Office of the Tax Assessor is responsible for the assessment of all taxable real property. Noncommercial real property subject to taxation is reassessed once every five years and commercial real property subject to taxation is reassessed biannually. The Tax Assessor prepares an annual assessment roll and schedule of collections for each parcel of real property that is used by The Office of the Tax Collector, as the basis for issuing tax bills to all taxpayers in the U.S. Virgin Islands.

Property taxes are to be levied by May 15 of each year in the name of the record owner on January 15 of the same year. The taxes are due on September 30 and become delinquent if not paid by October 30.

For businesses with gross receipts of $120,000 per annum or less, gross receipts taxes are levied on an annual basis, based on 4% of gross receipts in excess of $5,000. Businesses with annual gross receipts greater than $120,000 and up to $150,000, based on 4% of gross receipts in excess of $5,000 per month. Businesses with annual gross receipts of more than $150,000, lose the monthly exemption and are levied on a monthly basis of 4% of gross receipts. The gross receipts tax is due within 30 calendar days following the last day of the calendar month collected.

6. Receivables (continued)

Primary Government Receivables (continued)

Component unit receivables at September 30, 2007, consist of the following (expressed in thousands):

Utility service charges	$	42,340
Port fees		4,932
Students		2,184
Patients		20,155
Other		17,556
Total	$	87,167

Loans and advances receivable, net at September 30, 2007, consist of the following (expressed in thousands):

	Fiduciary Funds Pension Trust		Component Units	
Mortgage loans	$	14,451	$	–
Personal loans		106,449		–
Other loans and advances		205		101
Subtotal		121,105		101
Less allowance for uncollectible accounts		(3,000)		(50)
Loans and advances receivable, net	$	118,105	$	51

7. Interfund Transactions

Interfund Transfers

Interfund transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. The most significant transfers to the General Fund from other governmental funds include a $113 million transfer from the PFA Debt Service representing gross receipt tax revenue in excess of bond service requirements, and a $4 million transfer from a non-major debt service fund representing property tax revenue no longer reserved for debt service requirements.

7. Interfund Transactions (continued)

Interfund Transfers (continued)

Significant transfers made from the General Fund include a transfer of $8.4 million to the Emergency Molasses Fund (a non-major governmental fund), a transfer of $10 million to the Budget Stabilization Fund (a non-major governmental fund), a transfer of $5.4 million to the PFA Debt Service Fund (a major fund), a transfer of $1 million to the Crisis Intervention Fund (a non-major governmental fund), and a transfer of $2 million to the St. Croix Capital Improvement Fund (a non-major governmental fund). Significant transfers, not previously mentioned, from the PFA Debt Service Fund (a major fund) include transfers of $5.3 million to the PFA Special Revenue Fund (a non-major governmental fund), representing interest earned from unexpended bond proceeds.

Interfund transfers for the year ended September 30, 2007 consisted of the following (expressed in thousands):

Transfer to	General	PFA Debt Service	PFA Capital Projects	Nonmajor Governmental	West Indian Company	Other Enterprise	Total
General	$ –	$ 113,055	$ 3,500	$ 4,004	$ 1,000	$ 863	$ 122,422
PFA debt service	5,401	–	–	–	–	–	5,401
Other governmental	21,524	5,362	–	–	–	–	26,886
Other enterprise	–	–	592	350	–	–	942
Total	$ 26,925	$ 118,417	$ 4,092	$ 4,354	$ 1,000	$ 863	$ 155,651
Transfer from							
General	$ –	$ 5,401	$ –	$ 21,524	$ –	$ –	$ 26,925
PFA debt service	113,055	–	–	5,362	–	–	118,417
PFA capital projects	3,500	–	–	–	–	592	4,092
Nonmajor governmental	4,004	–	–	–	–	350	4,354
West Indian Company	1,000	–	–	–	–	–	1,000
Other enterprise	863	–	–	–	–	–	863
Total	$ 122,422	$ 5,401	$ –	$ 26,886	$ –	$ 942	$ 155,651

7. Interfund Transactions (continued)

Due From/To Other Funds

The following table summarizes interfund receivables and payables at September 30, 2007 (expressed in thousands):

Due to	General	PFA Capital Projects	Nonmajor Governmental	West Indian Company	Other Enterprise Funds	Total
General	$ –	$ –	$ 3,178	$ 2,000	$ 4,639	$ 9,817
PFA capital projects	–	–	–	–	324	324
Other governmental	10,802	–	–	–	1,934	12,736
Total Governmental Funds	10,802	–	3,178	2,000	6,897	22,877
Other enterprise fund	300	–	–	–	–	300
Total Enterprise Funds	300	–	–	–	–	300
Total	$ 11,102	$ –	$ 3,178	$ 2,000	$ 6,897	$ 23,177
Due from						
General	$ –	$ –	$ 10,802	$ –	$ 300	$ 11,102
Other governmental	3,178	–	–	–	–	3,178
Total Governmental Funds	3,178	–	10,802	–	300	14,280
West Indian Company	2,000	–	–	–	–	2,000
Other enterprise	4,639	324	1,934	–	–	6,897
Total Enterprise Funds	6,639	324	1,934	–	–	8,897
Total	$ 9,817	$ 324	$ 12,736	$ –	$ 300	$ 23,177

The due from/to other funds includes the following amounts due from the General Fund: $4.9 million due to the Emergency Molasses Fund (a non-major governmental fund) for unpaid appropriations, $1.5 million due to the Elected Governor Retirement Fund, and $3.6 million due to the PFA Special Revenue Fund.

Other balances composing the due from/to other funds include $2.7 million owed from the bond proceeds fund (a non-major governmental fund) to the General Fund.

7. Interfund Transactions (continued)

Due From/To Other Funds (continued)

The due to the General Fund from the other enterprise funds is mainly composed of the amount owed by the Virgin Islands Lottery to the General Fund amounting to $4.4 million, consisting primarily of 8% of the total lottery revenue that is required to be transferred to the General Fund.

The due to other governmental funds from the other enterprise fund includes $567 thousand due from the Virgin Islands Lottery to the Pharmaceutical Assistance to the Aged Fund, and $944 thousand due from the Virgin Islands Lottery to the VI Educational Initiative Fund, consisting primarily of 15% and 25%, respectively, of total lottery revenue that is required to be transferred to these funds.

Contributions from the Virgin Islands Lottery (a non-major business-type fund) amounted to $5 million, with contributions to the Educational Initiative Fund (a non-major governmental fund) of $2.6 million, a contribution to the Pharmaceutical Program Fund (a non-major governmental fund) of $1.6 million, and a contribution to the General Fund of $778 thousand.

8. Restricted Assets

Primary Government

Restricted assets of proprietary funds and business-type activities as of September 30, 2007 include cash and cash equivalents as follows (expressed in thousands):

Restricted Assets – Proprietary Funds and Business-type Activities

Unemployment insurance funds	$ 25,186
WICO debt service funds	1,848
Total restricted assets of proprietary funds and business-type activities	$ 27,034

8. Restricted Assets (continued)

Component Units

Restricted assets of component units include cash and cash equivalents, investments, and receivables as follows (expressed in thousands):

Restricted Assets – Component Units

Debt service and sinking fund requirements	$	17,637
Endowment funds		15,156
HUD project funds		4,917
Revolving loan funds		14,480
Other		898
Total cash and cash equivalents		53,088
Investments:		
Debt service and sinking fund requirements		27,431
Construction funds		59,075
Endowment funds		4,746
Renewal and replacement funds		10,040
Revolving loan funds		4,697
Total investments		105,989
Other:		
Construction funds		3,390
Total restricted assets of component units	$	162,467

9. Capital Assets

Primary Government

The capital assets activity for the governmental activities for the year ended September 30, 2007, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets, not being depreciated				
Land	$ 172,180	$ 9,712	$ –	$ 181,892
Construction in progress	99,688	66,202	47,533	118,357
Total capital assets, not being depreciated	271,868	75,914	47,533	300,249
Capital assets, being depreciated:				
Land improvements	3,333	2,350	–	5,683
Infrastructure	133,776	33,393	–	167,169
Buildings and improvements	337,774	15,930	–	353,704
Machinery and equipment	67,710	22,655	–	90,365
Total capital assets, being depreciated	542,593	74,328	–	616,921
Less accumulated depreciation for:				
Land improvements	1,933	271	–	2,204
Infrastructure	26,242	4,645	–	30,887
Buildings and improvements	104,535	5,938	–	110,473
Machinery and equipment	42,082	12,810	–	54,892
Total accumulated depreciation	174,792	23,664	–	198,456
Total capital assets, being depreciated, net	367,801	50,664	–	418,465
Governmental activities capital assets, net	$ 639,669	$ 126,578	$ 47,533	$ 718,714

9. Capital Assets (continued)

Primary Government (continued)

Capital assets activity for the business-type activities for the year ended as of September 30, 2007, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets, not being depreciated				
Land	$ 5,317	$ –	$ –	$ 5,317
Construction in progress	5,600	1,453		7,053
Total capital assets, not being depreciated	10,917	1,453	–	12,370
Capital assets, being depreciated				
Land improvements	–	10	–	10
Buildings and improvements	49,638	3,230	–	52,868
Machinery and equipment	4,619	1,256	65	5,810
Total capital assets, being depreciated	54,257	4,496	65	58,688
Less accumulated depreciation for:				
Buildings and improvements	16,607	1,445	–	18,052
Machinery and equipment	2,272	678	57	2,893
Total accumulated depreciation	18,879	2,123	57	20,945
Total capital assets, being depreciated, net	35,378	2,372	8	37,743
Business-type activities capital assets, net	$ 46,295	$ 3,825	$ 8	$ 50,113

9. Capital Assets (continued)

Primary Government (continued)

Depreciation and amortization expense was charged to functions/programs of the PG for the year ended September 30, 2007 as follows (expressed in thousands):

Governmental activities:		
General government	$	6,478
Public safety		2,488
Health		1,169
Education		6,243
Public Housing and Welfare		776
Culture and recreation		233
Transportation and communication		6,277
Total depreciation expense – governmental activities	$	23,664
Business-type activities:		
WICO – depreciation and amortization	$	1,411
Other enterprise funds – depreciation		712
Total depreciation and amortization – business-type activities	$	2,123

9. Capital Assets (continued)

Component Units

The capital assets activity for the discretely presented component units for the year ended September 30, 2007 is summarized as follows (expressed in thousands):

	Beginning Balance *(As restated)*	Additions	Reductions	Ending Balance
Capital assets, not being depreciated:				
Land	$ 118,385	$ 3,274	$ –	$ 121,659
Construction in progress	56,313	58,736	29,647	85,402
Total capital assets, not being depreciated	174,698	62,010	29,647	207,061
Capital assets, being depreciated:				
Buildings and improvements	1,239,320	32,017	15,359	1,255,978
Airport and marine terminal facilities	108,651	7,803		116,454
Personal property and equipment	95,981	9,908	3,107	102,782
Total capital assets, being depreciated	1,443,952	49,728	18,466	1,475,214
Less accumulated depreciation:				
Buildings and improvements	691,157	45,978	13,983	723,152
Airport and marine terminal facilities	74,076	4,538	–	78,614
Personal property and equipment	58,484	6,919	907	64,496
Total accumulated depreciation	823,717	57,435	14,890	866,262
Total capital assets being depreciated, net	620,235	(7,707)	3,576	608,952
Component unit capital assets, net	$ 794,933	$ 54,303	$ 33,223	$ 816,013

9. Capital Assets (continued)

Component Units (continued)

Depreciation expense charged to each component unit for the year ended September 30, 2007 was as follows (expressed in thousands):

Virgin Islands Housing Authority	$	8,081
Virgin Islands Port Authority		17,701
Virgin Islands Water and Power Authority:		
Electric System		16,642
Water System		2,909
Virgin Islands Government Hospital and Health Facilities Corporation:		
Roy L. Schneider Hospital		5,563
Juan F. Luis Hospital		2,442
University of the Virgin Islands		1,783
Other component units		2,314
Total depreciation – component units	$	57,435

10. Long-Term Liabilities

Long-term liabilities activities for the year ended September 30, 2007 were as follows (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities:						
Bonds payable:						
1998 Series Revenue and Refunding Bonds	$ 445,025	$ –	$ (15,620)	$ 429,405	$ 16,530	$ 412,875
1999 General Obligation Bonds, Series A	3,820	–	(1,005)	2,815	1,075	1,740
1999 Series A Revenue Bonds	110,695	–	(5,285)	105,410	5,585	99,825
2001 Series A Tobacco Bonds	21,665	–	(300)	21,365	910	20,455
2002 Series Garvee Bonds	9,940	–	(3,155)	6,785	3,310	3,475
2003 Series A Revenue Bonds	265,145	–	(2,990)	262,155	3,110	259,045
2004 Series A Revenue Bonds	91,705	–	(2,980)	88,725	3,130	85,595
2006 Series A Tobacco Bonds	7,290	–	–	7,290	–	7,290
2006 Series A Revenue Bonds	219,490	–	–	219,490	505	218,985
Subtotal bonds payable	1,174,775	–	(31,335)	1,143,440	34,155	1,109,285
Less:						
Deferred amount on refundings	(18,605)	–	1,371	(17,234)	(1,371)	(15,863)
Bonds premium	19,058	–	(1,051)	18,007	1,052	16,955
Bonds discount	(7,508)	–	960	(6,548)	(960)	(5,588)
Bonds accretion	(190)	–	868	678	678	–
Total bonds payable, net	1,167,530	–	(29,187)	1,138,343	33,554	1,104,789
Loans payable:						
Series 2006 Note	4,000	–	(1,266)	2,734	1,333	1,401
Series 2005 Note	3,588	–	(2,147)	1,441	1,441	–
Total loans payable	7,588	–	(3,413)	4,175	2,774	1,401
Other liabilities:						
Accrued compensated absences	44,080	2,662	–	46,742	28,045	18,697
Retroactive union arbitration	272,173	–	–	272,173	–	272,173
Litigation	14,021	–	(5,923)	8,098	494	7,604
Landfill closure and postclosure costs	32,742	3,991	–	36,733	–	36,733
Arbitrage	289	–	(289)	–	–	–
Total other liabilities	363,305	6,653	(6,212)	363,746	28,539	335,207
Total governmental activities	$ 1,538,423	$ 6,653	$ (38,812)	$ 1,506,264	$ 64,867	$ 1,441,397
Business-type activities:						
Notes payable:						
WICO	$ 20,719	$ 1,780	$ (484)	$ 22,015	$ 623	$ 21,392
Fiduciary activities:						
Note payable:						
Pension trust fund	$ 10,000	$ 9,313	$ (10,000)	$ 9,313	$ 9,313	$ –

10. Long-Term Liabilities (continued)

Accrued litigation, retroactive union arbitration liabilities, compensated absences, and the landfill closure and post-closure costs are generally expected to be liquidated with resources derived from the General Fund.

Debt Margin

Pursuant to 48 U.S.C. Section 1574(b)(i) of the Revised Organic Act, the Government may issue revenue bonds for public improvements or undertakings authorized by an act of the Legislature, without limitation as to principal amount. Such revenue bonds are payable solely from the revenue directly derived from and attributable to such public improvements or undertakings. Pursuant to 48 U.S.C. Section 1574(b)(ii), the Government is authorized to issue general obligation bonds for any public purpose provided that no such indebtedness is in excess of 10% of the aggregate assessed valuation of the taxable real property in the U.S. Virgin Islands. In addition, pursuant to 48 U.S.C. Section 1574(a) (Public Law 94-932), the U.S. Virgin Islands is authorized to cause to be issued bonds or other obligations in anticipation of the matching funds to be received from the federal government pursuant to 26 U.S.C. Section 7652(b)(3). There is no legal limit on the value of bonds that the Government may issue pursuant to 48 U.S.C. Section 1574(a). The Legislature of the U.S. Virgin Islands must authorize all bond issuances. PFA is authorized to issue bonds for the purpose of financing any project or for the purpose authorized by the Legislature. Given that PFA's powers to issue bonds are derived from 48 U.S.C. Section 1574(b), the bonds issued by PFA are subject to the limitations of said 48 U.S.C. Section 1574(b). On August 23, 1999, the Legislature amended the V.I. Code to add a Mandatory Balanced Budget Provision. Such provisions, specifically Title 2 of the V.I. Code Section 256, provide that the amount of debt of the Government existing on October 1, 2000 shall be the debt limit of the Government, exclusive of bond principal and interest that may become due. The debt limit specified under Title 2 of the V.I. Code Section 256 does not include bonds authorized by law for which a specific source of revenue is identified and committed to retiring those bonds. As used in Title 2 of the V.I. Code Section 256, the term "debt" means the total accumulated unpaid obligations that are due and payable, including unpaid income tax refunds, amounts owed to vendors, and current year unpaid debt service obligations, if any. As used in the statute, the term "debt" does not include that portion of principal or interest on bonds that is not yet due and payable.

10. Long-Term Liabilities (continued)

Bonds Payable

Bonds payable outstanding at September 30, 2007 are comprised of the following (expressed in thousands):

Primary Government - Bonds Payable

Bonds Payable	Final Maturity	Interest Rates (%)	Balance
1998 Series A, C, D, and E Revenue and Refunding Bonds	2025	5.50 - 7.11	$ 429,405
1999 Series A General Obligation Bonds	2010	6.50	2,815
1999 Series A Revenue Bonds	2020	4.20 - 6.50	105,410
2001 Series A Tobacco Bonds	2031	5.00	21,365
2002 Series Garvee Bonds	2009	2.50 - 5.00	6,785
2003 Series A Revenue Bonds	2033	4.00 - 5.25	262,155
2004 Series A Revenue Bonds	2024	4.00 - 5.25	88,725
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 - 7.625	7,290
2006 Series A Revenue Bonds	2029	3.50 - 5.00	219,490
Subtotal			1,143,440
Less:			
Deferred amount on refundings			(17,234)
Bonds premium			18,007
Bonds discount			(6,548)
Bonds accretion			678
Total			$ 1,138,343

On May 1, 1998, PFA issued the revenue and refunding bonds series 1998 A, B, C, D, and E amounting to $541.8 million, secured by general obligation notes issued by the Government. These bonds were issued for the purpose of, among other things, advance refunding of previously issued bonds in order to obtain lower interest rates.

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

The proceeds of the 1998 Series A and B Bonds were placed in an irrevocable trust account to provide for all future debt service payments on the Highway Revenue Bonds Series 1989, Series 1991, Series 1992, Series 1993, and Series 1994 Bonds. At September 30, 2007, $161.3 million of the above-mentioned defeased bonds were outstanding.

The proceeds of the Series 1992 Revenue Bonds were placed in an irrevocable trust to provide for all future debt service payments on the Series 1989 Revenue Bonds. At September 30, 2007, $146.4 million of defeased bonds were outstanding. Assets held by irrevocable trusts for refunding of prior outstanding debt and the corresponding liabilities are not included in the Government's basic financial statements.

The 1998 Series C Bonds and the 1998 Series D Bonds were issued to pay, on behalf of the Government, the full principal balance and interest due and payable on the Revenue Anticipation Note, issued in February 1998. The remaining balance of the 1998 Series D Bonds amounting to approximately $11.6 million was primarily provided to the Government for additional working capital. The net proceeds of the 1998 Series E Bonds amounting to $104 million were primarily designated to fund the construction of certain capital projects amounting to $94 million. The remaining $10 million was deposited in a debt service reserve account.

The U.S. Department of the Treasury makes certain transfers to the Government of substantially all excise taxes imposed and collected under the Internal Revenue laws of the United States in any fiscal year on certain products produced in the U.S. Virgin Islands (primarily rum) and exported to the United States from the Virgin Islands. The amount required to be remitted to the Government by the U.S. Department of the Treasury is an amount no greater than the total amount of local revenue (primarily taxes) collected by the Government in each fiscal year. As a result, the term "matching fund revenue" is used to denote these payments. The Government has pledged the matching fund revenue, as described above, to the timely payment of principal and interest on the 1998 Series A, B, C, D, and E Bonds and the 2004 Series A Bonds. Thus, amounts to be received by the Government from federal excise taxes, mostly in rum, are deposited directly into trust accounts until the 1998 and 2004 Bonds are paid in accordance with the Indenture of Trust.

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

Estimated prepayments of matching fund revenue are made to the Government prior to the beginning of each fiscal year, subject to adjustment for the amount of local revenue actually collected by the U.S. Department of the Treasury during such year. Prepayments of matching fund revenue are recorded as deferred revenue in the accompanying statement of net assets and the balance sheet of the governmental funds and recognized in the following year when earned. The adjustments for actual collections made to the estimated prepayments are recorded in the year determined.

In November 1999, the U.S. Congress approved an increase in the rate of federal excise taxes on rum transferred to the Government from $10.50 to $13.25 per proof gallon. The increase was retroactive to July 1999. The increase in rate has subsequently been extended four times and in October 2008, Congress again extended the $13.25 per proof gallon rate to December 31, 2009.

Interest on the Revenue and Refunding Bonds Series 1998 A, C, D, and E and 1999 Bonds is payable semiannually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 1998 Series bonds. The principal due on October 1 and interest payments due on October 1 and April 1, are funded by the matching fund revenue and deposited into the debt service reserve accounts.

On April 13, 1999, a loan agreement was made between and among the Government, the PFA, International Business Machine Corporation (IBM), Banco Popular de Puerto Rico, and U.S. Trust Company of New York (Y2K Loan). The purpose of the was to finance certain costs of compliance by the Government with Year 2000 computer system issues. The Y2K Loan was evidenced by the Government's issuance of General Obligation Bonds Series 1999 A amounting to $18 million. Principal and interest are payable semiannually on January 1 and July 1. On July 9, 2001, the Government paid the outstanding IBM portion of the bonds amounting to $7.4 million.

The General Obligation Bonds Series 1999A are secured by the full faith and credit and taxing power of the Government, including a pledge on annual real property tax revenue from its taxation of the Hovensa Oil Refinery (the Refinery), which revenue is deposited in the Hovensa Property Tax Fund, and a contingent pledge of all franchise taxes on foreign sales corporations collected by the Government (Franchise Tax Revenue).

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

Pursuant to the Hovensa Oil Contract, the Refinery agreed to pay $14 million annually of real property taxes on the Refinery properties. Foreign sales corporations qualified to do business in the Virgin Islands must pay a franchise tax of $1.50 for each thousand dollars of capital stock issued (Franchise Tax).

The Government did not comply with the requirement of the General Obligation Bonds 1999 Series to issue its audited financial statements within 180 days after year-end. The Government has not classified these bonds as current since the bonds were not called or paid within one year after September 30, 2007.

On November 16, 1999, PFA issued the 1999 Series A Revenue Bonds amounting to $299.9 million. These bonds were issued to (i) pay certain working capital obligations of the Government, (ii) repay the Government outstanding tax and revenue anticipation notes, (iii) fund the Series debt service accounts, and (iv) pay certain costs of issuing the bonds.

On September 28, 2006, PFA advance refunded a portion of the 1999 Bonds with maturity dates of October 1, 2020 to October 1, 2029 totaling $162.9 million. The proceeds of the refunding were placed in a trust account to provide for all future debt service payments on the 2020 through 2029 maturities of the bonds. Approximately $180 million was deposited with the refunding bond escrow agent to fund the Escrow Fund accounts. At September 30, 2007, $162.9 million of the defeased 1999 Series A Revenue Bonds remain outstanding.

The Government has pledged gross receipts taxes for the timely payment of the principal and interest on the 1999 Series A Bonds. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1. Gross receipts revenue amounted to $151.1 million for the year ended September 30, 2007.

On November 20, 2001, TSFC issued the 2001 Tobacco Settlement Asset--Backed Series A Bonds amounting to $23.7 million of the aggregate principal. The proceeds were used for the purpose of (i) purchasing all rights, title, and interest in certain litigation awards under the master settlement agreement (MSA) entered into by participating cigarette manufacturers, (ii) issuance of Tobacco Settlement Asset-Backed Bonds to pay the purchase price for the rights, and (iii) to provide funds for hospital and healthcare projects in the U.S. Virgin Islands.

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

Interest on the 2001 bonds is payable semiannually on each May and November 15, beginning with May 2002 for the term bonds amounting to \$15.5 million and convertible capital appreciation bonds amounting to \$8.2 million, with a nominal value of \$6.2 million.

The convertible capital appreciation bonds accrete interest prior to November 15, 2007 and accrue interest subsequent to that date. Interest on the capital appreciation bonds will compound on May 15th and November 15th.

2001 Series A Tobacco Bonds payable at September 30, 2007 amounted to \$21.4 million with unamortized accretion of \$47 thousand. Under early redemption provisions, any MSA payments exceeding annual debt service requirements of the 2001 Series A Tobacco Bonds must be applied to early redemption of principal. MSA payments and interest earnings on the trust funds during the year ended September 30, 2007, resulted in early redemption of \$300 thousand during fiscal year 2007.

On October 1, 2002, PFA issued the Series 2002 Revenue Bonds (Garvee Bonds), the proceeds of which amounted to \$20.8 million. The Garvee Bonds are special, limited obligations, secured solely by the pledge and assignment of the Government's security interest in Federal Highway Reimbursement Revenues. The bonds were issued to (i) fund construction costs related to renovation and construction of two sea docks, (ii) fund the Debt Service Reserve Accounts, and (iii) pay certain costs of issuing the bonds. The Series 2002 Bonds are not subject to redemption prior to maturity.

Interest and principal on the Series 2002 Revenue Bonds are payable semiannually on March 1 and September 1. As of September 30, 2007, the outstanding 2002 Revenue Bonds amounted to \$6.8 million.

On December 17, 2003, PFA issued the Series 2003A Revenue Bonds, the proceeds of which amounted to approximately \$268 million. The bonds were issued to: (i) repay the Government outstanding Revenue Bond Anticipation Notes, Series 2003, (ii) fund certain necessary public safety and other public sector capital development projects, (iii) fund debt service accounts for the bond issuance, and (iv) to pay certain costs of issuing the bonds.

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

The Government has pledged gross receipts taxes for the timely payment of the principal and interest on the Series 2003A Revenue Bonds. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1, beginning October 1, 2005. The Series 2003A Revenue Bonds are not subject to optional redemption prior to October 1, 2014.

On December 1, 2004, PFA issued the 2004 Series A Bonds, the proceeds of which amounted to $94 million. The Government has pledged the Matching Fund Revenues to the timely payment of principal and interest on the 2004 Series A Bonds. The bonds bear interest at 4.00% to 5.25% and mature from 2005 to 2024. The proceeds of the bonds were issued to: (i) finance the planning, development, constructing, renovating and equipping of wastewater treatment facilities and collection systems on St. Thomas and St. Croix, (ii) finance the repairs, renovations and construction of solid waste facilities in the Territory, (iii) finance the repair and construction of public roads in the Territory, (iv) provide start-up capital for the Virgin Islands Waste Management Authority, (v) fund the Series 2004A Senior Lien Debt Service Reserve Subaccount, and (vi) pay certain costs of issuing the Series 2004A Bonds. The Series 2004A Bonds are not subject to optional redemption prior to October 1, 2014.

On March 15, 2006, TSFC issued the 2006 Tobacco Settlement Asset-Backed Bonds, Subordinated Series 2006 A, B, C & D Turbo and Capital Appreciation Bonds amounting to $48.1 million, with an issue value of $7.3 million (net of accretion of $40.8 million). The bonds are secured and payable from collections including all Tobacco Settlement Revenues to be received by TSFC, reserves, amounts held in other accounts established by the indenture and TSFC's rights under the purchase agreement. The proceeds have been used for the purpose of (i) financing several capital, hospital and health development projects for the benefit of the Virgin Islands and its residents, (ii) pay certain costs of issuance relating to the Series 2006 Bonds, and (iii) fund operating costs.

Interest on the Series 2006 Tobacco Settlement Asset-Backed Bonds is not paid currently, but accretes from the date of delivery, compounded every May 15 and November 15, commencing May 15, 2006 through the final maturity date of May 15, 2035. Interest yields on the Bonds range from 6.25% to 7.63%. The series are subject to early redemption at accreted value beginning May 15, 2023, provided that the 2001 Tobacco Settlement Asset-Backed Series A Bonds have been paid in full.

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

On September 28, 2006, PFA issued the 2006 Series Gross Receipts Revenue Bonds ("2006 Series Bonds"), the proceeds of which amounted to $219.5 million. The Government has pledged gross receipts tax revenues for the timely payment of the principal and interest on the 2006 Series Bonds. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1, beginning October 1, 2007.

The 2006 Series Bonds bear interest at 3.50% to 5.00% and mature from 2007 to 2029. The proceeds of the bonds were issued to: (i) advance refund a portion of the Series 1999A Revenue Bonds, (ii) pay the cost of a termination fee in connection with an outstanding swap option agreement, (iii) fund certain capital projects, (iv) fund debt service reserve accounts, (v) pay certain costs of issuing the Series 2006 Bonds and (vi) fund a net payment reserve account for a new swap agreement in connection with the refunding. The 2006 Series Bonds maturing on or before October 1, 2016 are not subject to optional redemption.

The advance refunding of the 2020 through 2029 maturities of the 1999 Series A Bonds was made in order to obtain lower interest rates. The economic gain obtained by this advance refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a debt service saving of approximately $40.8 million and an economic gain of approximately $25.6 million.

The proceeds of the 2006 Series Bonds related to the refunding were placed in a trust account to provide for all future debt service payments on the 2020 through 2029 maturities of the 1999 Series A Bonds. Approximately $180 million in funds were deposited into the Escrow Fund accounts. At September 30, 2007, $162.9 million of defeased 1999 Bonds remained outstanding.

On September 28, 2006, in connection with the 2006 Series Bonds, the PFA entered into a Basis Swap agreement in order to offset interest expense in connection with the 2006 Series Bonds. Under the terms of the agreement, the bonds and the related Basis Swap mature on October 1, 2029, and the swap's notional amount of $219.5 million match the 2006 Series Bonds.

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

Beginning in fiscal year 2007, the notional value of the Basis Swap and the principal amount of the associated debt began to decline. Under the Basis Swap agreement, the PFA pays the counterparty a variable payment based on the Bond Market Association Municipal Swap Index (BMA) and receives a variable payment computed as 67.03% of the 10-year London Interbank Offered Rate (LIBOR).

The Basis Swap had a negative fair value of $1.7 million as of September 30, 2007. The fair value was calculated using the zero coupon method. This method calculates the future net settlement payments required by the Basis Swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero coupon bonds due on the date of each further net settlement on the swap.

As of September 30, 2007, PFA was not exposed to credit risk because the Basis Swap had a negative fair value. However, should interest rates change and the fair value of the Basis Swap becomes positive, the PFA would be exposed to credit risk in the amount of the derivative's fair value. The Basis Swap counterparty was rated Aa2 by Moody's and AA+ by Standard & Poor's as of September 30, 2007, respectively. To mitigate credit risk, if the counterparty's credit quality falls at or below Baa1 by Moody's or BBB+ by Standard & Poor's, the fair value of the Basis Swap will be fully collateralized by the counterparty with U.S. government securities and would be posted with a third-party custodian. The PFA's security obligations are secured by the Financial Guaranty Insurance Company.

The Basis Swap exposes the PFA to basis risk should the relationship between LIBOR and BMA converge, changing the fixed expenses on the bonds. The effect of this difference in basis is indicated by the difference between BMA and 67.03% of 10-year LIBOR. If a change occurs that results in the rates' moving to convergence, the expected savings may not be realized. As of September 30, 2007, the BMA rate was 3.84% whereas 67.03% of 10-year LIBOR was 3.46%.

The PFA or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination, the swap has a negative fair value, the PFA would be liable to the counterparty for that payment.

10. Long-Term Liabilities (continued)

Debt service requirements at September 30, 2007 were as follows (expressed in thousands):

	Governmental Activities – Bonds									
	Revenue Bonds Series 1998 A		Revenue Bonds Series 1998 C		Revenue Bonds Series 1998 D		Revenue Bonds Series 1998 E		Revenue Bonds Series 1998 Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Year:										
2008	$ –	$ 15,821	$ 11,780	$ 1,009	$ 4,750	$ 437	$ –	$ 6,261	$ 16,530	$ 23,528
2009	–	15,821	12,455	343	4,915	147	–	6,261	17,370	22,572
2010	13,135	15,480	–	–	–	–	–	6,107	13,135	21,587
2011	13,835	14,779	–	–	–	–	–	5,791	13,835	20,570
2012	14,580	14,032	–	–	–	–	–	5,455	14,580	19,487
2013 – 2017	66,925	57,509	–	–	–	–	30,095	21,495	97,020	79,004
2018 – 2022	60,795	38,200	–	–	–	–	39,665	9,548	100,460	47,748
2023 – 2027	119,805	9,749	–	–	–	–	36,670	245	156,475	9,994
Total	$289,075	$181,391	$ 24,235	$ 1,352	$ 9,665	$ 584	$ 106,430	$ 61,163	$429,405	$244,490

	General Obligation Bonds Series 1999 A		Revenue Bonds Series 1999 A		Tobacco Bonds Series 2001 A		Garvee Bonds Series 2002		Revenue Bonds Series 2003 A	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:										
2008	$ 1,075	$ 166	$ 5,585	$ 6,380	$ 910	$ 658	$ 3,310	$ 339	$ 3,110	$ 13,004
2009	1,140	95	5,900	6,058	1,030	658	3,475	174	3,230	12,877
2010	600	20	6,230	5,716	1,100	658	–	–	3,360	12,746
2011	–	–	6,580	5,356	1,165	658	–	–	3,495	12,609
2012	–	–	6,950	4,948	1,265	658	–	–	3,635	12,448
2013 – 2017	–	–	41,990	17,188	2,740	3,289	–	–	21,110	59,228
2018 – 2022	–	–	32,175	3,245	5,110	2,778	–	–	27,195	52,971
2023 – 2027	–	–	–	–	–	2,011	–	–	34,945	45,057
2028 – 2032	–	–	–	–	8,045	1,408	–	–	90,430	32,898
2033 – 2037	–	–	–	–	–	–	–	–	71,645	3,626
Total	$ 2,815	$ 281	$ 105,410	$ 48,891	$ 21,365	$ 12,776	$ 6,785	$ 513	$262,155	$257,464

	Revenue Bonds Series 2004 A		Revenue Bonds Series 2006		Tobacco Bonds Series 2006 A, B, C & D		Total governmental activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:								
2008	$ 3,130	$ 4,505	$ 505	$ 10,627	$ –	$ –	$ 34,155	$ 59,207
2009	3,285	4,345	1,490	10,548	–	–	36,920	57,327
2010	3,450	4,176	1,530	10,491	–	–	29,405	55,394
2011	3,625	3,999	1,580	10,429	–	–	30,280	53,621
2012	3,805	3,814	2,705	10,330	–	–	32,940	51,685
2013 – 2017	22,085	15,917	15,090	49,478	–	–	200,035	224,104
2018 – 2022	28,440	9,373	42,620	44,361	–	–	236,000	160,476
2023 – 2027	20,905	1,684	90,945	26,638	–	–	303,270	85,384
2028 – 2032	–	–	63,025	4,394	–	–	161,500	38,700
2033– 2034	–	–	–	–	48,145	–	119,790	3,626
Less unamortized discount	–	–	–	–	(40,855)	–	(40,855)	–
	$ 88,725	$ 47,813	$ 219,490	$177,296	$ 7,290	$ –	$ 1,143,440	$ 789,524

10. Long-Term Liabilities (continued)

Conduit Debt

In February 2004, the PFA issued private activity bonds amounting to $50.6 million to finance costs of construction of a coker plant for a refinery on the island of St. Croix. The bonds are limited obligations of PFA and will be payable solely from and are secured by a pledge and assignment of the amounts payable under the loan agreement between PFA and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Government is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Government's basic financial statements.

Notes Payable

On September 7, 2006, PFA issued the Subordinate Lien Revenue Notes, Series 2006 (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $4 million (the "Series 2006 Notes"). The Series 2006 Notes accrue interest monthly at a rate of 4% for 36 months. The proceeds of the Series 2006 Notes were loaned to the PG under the same terms, for the purposes of (i) financing the acquisition of fire fighting, fire suppression and fire safety equipment, (ii) training of firefighters, (iii) renovations and repairs to fire stations, and (iv) pay certain costs of issuing the Series 2006 Notes. The PG has pledged gross receipts taxes for the payment of the Notes.

Debt service requirements for the Series 2006 Notes at September 30, 2007 were as follows (expressed in thousands):

Year	Principal	Interest
2008	$ 1,332	$ 104
2009	1,402	37
Total	$ 2,734	$ 141

10. Long-Term Liabilities (continued)

Notes Payable (continued)

On September 7, 2005, PFA issued the Subordinate Lien Revenue Notes, Series 2005 (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $6.35 million (the "Series 2005 Notes"). The Series 2005 Notes accrue interest monthly at a rate of 4% for 36 months. The proceeds of the Series 2005 Notes were loaned to the PG under the same terms, for the purposes of (i) financing the acquisition of a fleet of vehicles for the Virgin Islands Police Department, and (ii) paying certain costs of issuing the Series 2005 Notes. On September 22, 2005 the PFA made a prepayment on the loan balance in the amount of $500 thousand, from unexpended loan proceeds. On October 12, 2005 the PFA made a prepayment of $200 thousand from unexpended loan proceeds. The Government has pledged gross receipts taxes for the payment of the Notes.

Debt service requirements for the Series 2005 Notes at September 30, 2007 were as follows (expressed in thousands):

Year	Principal	Interest
2008	$ 1,441	$ 28

On November 20, 2002, WICO consolidated and refinanced its notes payable and obtained an additional $2 million in financing for infrastructure improvements. The consolidated loan amounted to $22.5 million at a fixed rate of 4.5% for the first four years of the twenty-year term of the loan, until November 20, 2006. On June 6, 2006, WICO refinanced the outstanding loan back to the maximum of $22.5 million, at an effective interest rate of 6.2% per annum, effective November 20, 2006. This refinancing created additional working capital of approximately $2.7 million dollars to fund cruise ship pier upgrades to accommodate mega cruise ships. Subsequent to November 20, 2006, WICO will have the option (not to be exercised more than once every two years) to fix the interest rate at one of the following three options: a) prime rate plus 75 basis points, b) 1 year Libor plus 200 basis points, or c) 3 year Treasury notes plus 125 basis points. The loan will be repaid in 240 consecutive monthly payments of $164 thousand (representing principal and interest) and a final payment of the outstanding principal balance plus any unpaid interest accrued to the date of the final payment. The loan may be prepaid, in whole or in part, at any time without penalty. The revenue and lease agreements of WICO are pledged for the payment of principal and interest on the loan. WICO paid approximately $1.4 million in interest expense during fiscal year 2007.

10. Long-Term Liabilities (continued)

Notes Payable (continued)

Debt service requirements for the WICO loan at September 30, 2007 were as follows (expressed in thousands):

Year:		
2008	$	623
2009		663
2010		705
2011		750
2012		798
2013 - 2017		4,912
2018 - 2022		7,230
2023 - 2024		6,334
Total	$	22,015

Fiduciary Funds – Notes Payable

On October 2, 2006, the pension trust fund entered into a line-of-credit agreement with a bank to provide working capital and to pay issuance and closing costs associated with the agreement. The pension trust fund obtained a revolving line-of-credit with a maximum principal amount of $25 million, which accrues interest at a fixed interest rate of 6.25% calculated on a 360-day basis and is due and payable quarterly in arrears commencing on the first day of the fourth calendar month following the closing of the loan. The note will bear interest at a rate equal to 3% above the bank's transfer rate in the event a default occurs. The terms of the line-of-credit require the pension trust fund to repay the line-of-credit in a period of 30 consecutive days during each 12-month period. The bank retains a certificate of deposit in the amount of $20 million as security on the note payable. As of September 30, 2007, the outstanding balance on the line-of-credit agreement was $9.3 million.

10. Long-Term Liabilities (continued)

Component Units – Bonds Payable

Bonds payable of discretely presented component units are those liabilities that are paid out of resources pledged by such entities. These revenue bonds do not constitute a liability or debt of the PG. Bonds payable, outstanding at September 30, 2007, are as follows (expressed in thousands):

Bonds Payable	Final Maturity	Interest Rates (%)	Balance
University of the Virgin Islands:			
General obligation bonds of 2004	2035	2.02 – 5.38	$ 20,805
General obligation bonds of 1999	2029	4.75 – 5.95	22,380
Virgin Islands Water and Power Authority (Electric System)			
Revenue bonds of 2007	2031	5.0	57,585
Revenue bonds of 2003	2023	4.00 – 5.00	68,225
Revenue bonds of 1998	2021	4.25 – 5.30	78,595
Virgin Islands Water and Power Authority (Water System)			
Revenue bonds of 1999	2017	4.90 – 5.50	31,465
Virgin Islands Port Authority			
Series A Revenue bonds of 2003	2023	5.00 – 5.25	18,005
Series B Revenue bonds of 2003	2015	3.73 – 5.43	11,935
Series C Revenue bonds of 2003	2023	4.40	10,002
Virgin Islands Housing Finance Authority:			
Revenue bonds of 1995	2025	5.50 – 6.50	2,020
Revenue bonds of 1998	2028	4.10 – 5.25	2,125
Subtotal			323,142
Plus unamortized premium			4,830
Less unamortized discount			(744)
Less deferred amount on debt refunding and reacquisition costs			(3,608)
Bonds payable, net			323,620
Less amount due within one year			(11,453)
Bonds payable, due in more than one year			$ 312,167

10. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

Following is a schedule of changes in long-term debt for discretely presented component units for fiscal year 2007 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Bonds payable:	*(As restated)*					
University of the Virgin Islands	$ 43,238	$ –	$ (578)	$ 42,660	$ 630	$ 42,030
Virgin Islands Water and Power Authority:						
Electric System	155,534	57,559	(6,243)	206,850	6,890	199,960
Water System	31,622	–	(1,786)	29,836	2,195	27,641
Virgin Islands Port Authority	41,778	–	(1,649)	40,129	1,688	38,441
Virgin Islands Housing Finance Authority	4,645	–	(500)	4,145	50	4,095
Total bonds payable, net	276,817	57,559	(10,756)	323,620	11,453	312,167
Loans payable:						
Virgin Islands Economic Development Authority	790	1,281	(58)	2,013	428	1,585
Virgin Islands Water and Power Authority:						
Electric System	16,600	8,400	(10,000)	15,000	–	15,000
Virgin Islands Port Authority	1,460	2,523	(2,469)	1,514	1,514	–
Virgin Islands Housing Finance Authority	1,044	–	(189)	855	197	658
University of the Virgin Islands (restated)	1,678	450	(82)	2,046	99	1,947
Total loans payable	21,572	12,654	(12,798)	21,428	2,238	19,190
Other long-term liabilities:						
University of the Virgin Islands	44	14	–	58	–	58
Virgin Islands Housing Authority	3,683	–	(421)	3,262	–	3,262
Virgin Islands Economic Development Authority	10,801	–	(261)	10,540	–	10,540
Juan F. Luis Hospital	23	1,628	(625)	1,026	–	1,026
Roy L. Schneider Hospital	1,509	–	(472)	1,037	530	507
Waste Management Authority	2,005	394	–	2,399	673	1,726
Virgin Islands Housing Finance Authority	14,278	422	–	14,700	–	14,700
Total other long-term liabilities	$ 32,343	$ 2,458	$ (1,779)	$ 33,022	$ 1,203	$ 31,819

On December 1, 1999, the University issued the 1999 Series A Bonds. The University issued these bonds to finance a portion of the construction, furnishing, and equipping of various facilities of the University, to refund the 1994 Series A bonds issued by the University, to fund a debt service reserve fund for the 1999 Series A Bonds, and to pay certain costs issued under and secured by an indenture of trust dated. The 1999 Series A Bonds maturing on or after December 1, 2010 are subject to redemption prior to maturity at the option of the University, as a whole or in part of any date, on and after December 1, 2009, at redemption prices ranging between 100% and 102% of their principal amount plus accrued interest to the date fixed for redemption. As of September 30, 2005, the 1994 Series A Bonds were retired.

10. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

In fiscal year 2004, the University of the Virgin Islands General Obligation Improvement Bonds, 2004 Series A (the 2004 Series A Bonds) were issued in the amount of $21.2 million under and secured by the Indenture of Trust dated as of December 1, 1999 and a First Supplemental Indenture of Trust dated as of June 1, 2004, between the University and the trustees. The Bonds were used to finance the costs of construction, furnishings, and equipping of various facilities of the University, to fund the debt service reserve fund and to pay the cost of issuance.

In June 2003, the Virgin Islands Water and Power Authority (Electric System) issued the Electric System Revenue Bonds, Series 2003, amounting to $69.9 million. The proceeds from the bonds were used to finance capital improvements, repay $18 million of then outstanding lines-of-credit, cover underwriters’ costs, and establish a debt service fund.

In June 1998, the Electric System issued $110.9 million of 1998 Series A Electric System Revenue and Refunding Bonds. The proceeds from the bonds, and approximately $14 million in funds from the existing debt service and debt service funds, were used to repay outstanding line-of-credit balances, to provide for approximately $30 million in funds for the construction of certain capital projects, and to pay underwriters discount and issuance costs of approximately $1.7 million. The remaining proceeds were used to purchase direct obligations of the U.S. government which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining $69 million principal amount of the 1991 Series A Electric System Revenue Bonds.

Under the terms of the Bond Resolution relating to the Electric System Revenue and Refunding Bonds, payment of the principal and interest is secured by an irrevocable lien on the Electric System’s net revenue, (exclusive of any funds that may be established pursuant to the Bond Resolution for certain specified purposes), including the investments and income, if any, thereof.

The Bond Resolution contains certain restrictions and commitments, including the Electric System’s covenant to establish and maintain reasonable rates, fees, rentals, and other charges to produce net electric revenue, as defined, that will be at least 125% of aggregate annual principal and interest. The Electric System’s net electric revenue for the fiscal year ended June 30, 2007 was 201% of the aggregate debt service as defined in the Bond Resolution.

10. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

The Series 2003 Bonds maturing on or after July 1, 2013 are subject to redemption prior to their stated maturity date, at the option of the Electric System, on or after July 1, 2013, as a whole or in part at any time, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption.

The 1998 Series Electric System Revenue and Refunding Bonds are subject to redemption on or after July 1, 2008, as a whole or in part at any time, at a redemption price of 101% in 2008, 100.5% in 2009, and 100% thereafter. The Electric System Revenue Bonds are subject to mandatory redemption if (i) any significant part of the Electric System was damaged, destroyed, taken, or condemned, or (ii) any for-profit nongovernmental investor shall acquire an ownership interest in some or all of the assets of the Electric System.

In December 1998, the Virgin Islands Water and Power Authority (Water System) issued the 1998 Water System Revenue and Refunding Bonds amounting to $44.1 million. The proceeds from the bonds were used to repay the 1990 Series A Water System Revenue Bonds at a redemption price of 100% and to refund the 1992 Series B Water System Revenue Bonds, repay outstanding lines of credit balances, pay underwriters' costs, provide funding for a Renewal and Replacement Reserve Fund, and to purchase obligations of the United States Government, which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining principal amount of the 1992 Series B Bonds. At June 30, 2007, $31.5 million of the original principal amount of the defeased 1992 Series B Bonds remained outstanding.

Payment of principal and interest of the 1998 Series Bonds is secured by an irrevocable lien on the Water System's net revenues (exclusive of any funds that may be established pursuant to the Bond Resolution for certain other specified purposes) and funds established under the Bond Resolution, including investment securities. To provide additional security, the Water System has conveyed to the bond trustee, a subordinate lien and security interest in the Water System's General Fund. The Water System is also required to make deposits in a debt service reserve fund in accordance with the Bond Resolution.

The Bond Resolution contains certain restrictions and commitments, including the Water System's covenant to establish and maintain reasonable rates, fees, rentals, and other charges to produce net water revenue, as defined, that will be at least 125% of aggregate annual principal and interest payments. The Water System's net water revenue for the fiscal year ended June 30, 2007 was 125% of the aggregate debt service.

10. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

The 1998 Series Bonds maturing on or after July 1, 2010 are subject to redemption prior to their stated maturity date, at the option of the Water System, as a whole or in part at any time, at a redemption price of 101% during July 1, 2009 through June 30, 2010 and 100% thereafter. The Water System Revenue Bonds are subject to mandatory redemption if (i) any significant part of the water system shall be damaged, destroyed, taken, or condemned or (ii) any for-profit non-governmental investor shall acquire an ownership interest in some or all assets of the Water System.

On January 16, 2003, VIPA issued the Marine Revenue Bonds Series 2003A (AMT) and 2003B (federally taxable) with principal amounts of approximately $18 million and $17.4 million, respectively. VIPA is using the proceeds of the bonds to finance the dredging, rehabilitation, and construction of berthing piers for seagoing vessels and cruise ships and mixed use commercial facilities on the island of St. Thomas.

On October 20, 2003, VIPA issued the Marine Revenue Bonds Series 2003C (non-AMT), in the amount of $3 million with an authorized principal amount not to exceed approximately $10.8 million. VIPA is using the proceeds of the bonds to finance the completion of several projects of rehabilitation and construction of berthing piers and dredging for cruise and seagoing vessels on the island of St. Thomas.

The bonds' indentures contain certain account restrictions and funding covenants to cover interest, debt service, maintenance, and other costs as specified in the corresponding bond indentures.

The bonds' indentures also specify certain debt service coverage requirements determined from net available revenue of the Rohlsen Terminal, Airport System and the Marine Division. The provisions of each of the bonds' indentures require that rates and fees charged for the use of each facility should be sufficient to generate enough revenue to pay all operation and maintenance expenses, exclusive of depreciation and certain noncash charges, of the respective facilities, plus: (i) at least 125% of the principal and interest and redemption account sinking fund deposit requirement of each of the bonds becoming due during such year; (ii) the amount of the debt service reserve fund deposit requirement for such period; (iii) the deposit required to the Renewal and Replacement Fund; and (iv) the amount of the capital improvements appropriations for such period. The Management of VIPA asserts that VIPA has complied with all bond indenture requirements.

10. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

VIHFA issued the 1995 A Revenue Bonds in the amount of $6.2 million, and the 1998 A Revenue Bonds, in the amount of $3 million, for the purpose of building single-family housing. The indenture agreements for the bonds require the VIHFA to deposit with the trustee the full amount of the bond proceeds, to purchase Government National Mortgage Association (GNMA) certificates. The servicer is obligated to pay the principal and interest due on the GNMA certificates to the trustee in an amount equal to the scheduled principal and interest payments of the underlying mortgages. All mortgage loans issued by the VIHFA must be originated by the participants and secured by a first priority mortgage lien on the applicable single-family residences.

In June 2007, the Electric System of WAPA issued the $57.6 million 2007A Electric System Subordinated Revenue Bonds, to pay certain costs of issuance of the bonds, to finance the costs of certain capital improvements, refinance capital improvements funded through draws on a Line of Credit and reinstall a $10 million Line of Credit.

Fixed maturities required to pay principal and interest on discretely presented component units' bonds payable with fixed maturities at September 30, 2007 are as follows (expressed in thousands):

Year	Principal	Interest	Total
2008	$ 11,453	$ 14,132	$ 25,585
2009	12,023	15,058	27,081
2010	12,638	15,267	27,905
2011	13,224	14,674	27,898
2012	13,911	13,976	27,887
2013 – 2017	72,515	59,511	132,026
2018 – 2022	64,661	40,791	105,452
2023 – 2027	50,842	24,959	75,801
2028 – 2032	63,035	12,023	75,058
2033 – 2035	8,840	646	9,486
Total	323,142	$ 211,037	$ 534,179
Plus unamortized premium	4,830		
Less unamortized discount	(744)		
Less deferred amount on debt refunding and reacquisition costs	(3,608)		
Bonds payable, net	$ 323,620		

11. General Tax Revenue

For the year ended September 30, 2007, general tax revenue of the PG consisted of the following (expressed in thousands):

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total
Income taxes	$ 501,205	$ –	$ –	$ –	$ 501,205
Real property taxes	34,603	–	–	19,123	53,726
Gross receipts taxes	–	147,256	3,686	250	151,192
Other taxes	117,199	45,027	–	5,191	167,417
Tax revenue	$ 653,007	$ 192,283	$ 3,686	$ 24,564	873,540
Tax revenue not recognized on the modified accrual basis					(52,875)
Total tax revenue - government-wide					$ 820,665

12. Commitments and Contingencies

Primary Government

The current labor relations environment of the Government is defined by 13 distinct labor organizations subject to approximately 26 collective bargaining agreements. Fourteen bargaining units are without collective bargaining agreements. As specific disciplines are not grouped under a single pay plan, it is common to have clerical and nonprofessional workers in different departments throughout the Government, represented by different unions. Of the approximately 9,600 government workers, including employees of the executive branch of the Government, approximately 7,200 belong to unions. The present collective bargaining statute requires binding arbitration for certain classified employees in the event of an impasse during salary negotiations between the Government and any union. Under this process, each side chooses an arbitrator and a third impartial arbitrator is selected by the chosen arbitrators. The arbitration panel investigates and reviews the issues in dispute and renders a final and binding decision. For other classified employees, the Government must decide to go to impasse or to enjoin any strike. The Government has contractual liabilities for retroactive union arbitration salary increases estimated at $272 million accruing from fiscal years 1993 through 2006. These salary increases determined through arbitration have been recorded as a liability because the Government determined the

12. Commitments and Contingencies (continued)

Primary Government (continued)

liability is probable (based on arbitration) and reasonably estimable. However, pursuant to Title 24 of the V.I. Code, Section 374(h), no such contractual amount is due until appropriation of funds is made by the Legislature. Upon action of the Legislature, the General Fund will have the responsibility to satisfy immediately the obligations arising from the retroactive wages. Until such time, the liability is recorded as a long-term liability in the governmental activities column in the government-wide financial statements as it was not appropriated nor paid in fiscal 2008.

The Government receives financial assistance from the federal government in the form of loans, grants, and entitlements. Loans received are described in note 9(c). Monetary and nonmonetary federal financial assistance amounted to approximately $104.5 million and $21 million**,** respectively, for the year ended September 30, 2007.

Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially, all grants are subject to audit under OMB Circular A-133. Disallowances as a result of these audits may become liabilities of the Government.

Management of the Government believes that the future outcome of any changes in federal financial assistance programs will not have a material effect on the basic financial statements.

On September 23, 2002, the Government entered into a three-year compliance agreement with the U.S. Department of Education requiring that the Government develop integrated and systemic solutions to problems in managing its federally funded education programs. The compliance agreement focuses on the areas of program design and evaluation, financial management, human capital, and property management and procurement. The compliance agreement expired on September 23, 2005. The Government had not fully complied with all terms and conditions of the compliance agreement. The U.S. Department of Education subsequently implemented a special condition for the Government to designate a third-party fiduciary to administer U.S. Department of Education grants. On August 22, 2006, the PG entered into a contract with a third-party fiduciary to administer U.S. Department of Education grants, effective October 1, 2006. The terms and conditions of the original compliance agreement have been extended until the Government is in full compliance with the agreement.

12. Commitments and Contingencies (continued)

Primary Government (continued)

The Government is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Title 33, Section 3411(c) of the V.I. Code, no judgment shall be awarded against the Government in excess of $25,000 for tort claims filed under Government statutes. In cases involving several survivors, each award must be construed separately for purposes of applying the limitation upon recovery imposed by the Tort Claims Act. Under Title 27, Section 166(e) of the V.I. Code, the Government's waiver of immunity is expanded to $250,000 for medical malpractice actions, including actions for wrongful death based on malpractice. Under certain circumstances, as provided in Title 33, Section 3414 of the V.I. Code, the Government may assume the payment of a judgment entered against an officer or employee who acted reasonably and within the scope of his employment. The Government may pay up to a maximum amount of $100,000 of the settlement. With respect to pending and threatened litigation, the Government has accrued a provision for legal claims and judgments of approximately $8 million for awarded and anticipated unfavorable judgments as of September 30, 2007. Management believes that the ultimate liability in excess of amounts provided would not be significant.

Changes in the reported estimated litigation payable since September 30, 2007, resulted from the following activity (expressed in thousands):

	Beginning Fiscal Year Liability	Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2006 – 2007	$ 14,021	$ (3,593)	$ (2,330)	$ 8,098

12. Commitments and Contingencies (continued)

Primary Government (continued)

The breakdown of the estimated litigation payable at September 30, 2007 is as follows (expressed in thousands):

Governmental activities		
Current portion of estimated litigation payable	$	494
Long-term portion of estimated litigation payable		7,604
	$	8,098

As of September 2002, the Government was a defendant in a lawsuit regarding the assessment of property taxes. Under the lawsuit, taxpayers asserted that properties should be assessed at actual value in accordance with the Organic Act of 1933. The U.S. District Court agreed with the plaintiffs and, in May 2003, imposed an injunction on the collection of real property taxes at values higher than the 1998 assessed value.

The Government complied with the Court order to develop a plan to implement the new valuation method. In February 2007, the 2005 property tax assessments, based on 1998 assessment levels, were issued. In August 2008, the 2006 property tax assessments, based at actual value in accordance with the Organic Act of 1933, were issued. In September 2008, the 2006 property tax bills were rescinded by court order. In May 2009, the Government received court approval to reissue the 2006 property tax assessments, however that approval was rescinded in June 2009.

12. Commitments and Contingencies (continued)

Primary Government (continued)

State and federal laws and regulations require the Government to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Government reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $36.7 million reported as landfill closure and post-closure care liability at September 30, 2007, represents the cumulative amount reported to date based on the use of the estimated capacity of each landfill. The Government will recognize the remaining estimated cost of closure and post-closure care of $8.6 million as the remaining estimated capacities are filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2007.

The estimated used capacity and expected closure of each of the Government landfills is as follows:

Landfill	Estimated used capacity	Estimated closure date
Bovoni	63%	2020
Angilla	91%	2010
Susannaberg	100%	2010

Actual cost to perform closure and post closure may be higher due to inflation, changes in technology, or changes in regulations. The Government is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and post-closure care. The Government began making annual contributions to a trust in fiscal year 2007 to finance closure and post-closure costs. The Government expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional post-closure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users.

12. Commitments and Contingencies (continued)

Primary Government (continued)

Since 1985, the Government has been subject to a consent decree issued by the Virgin Islands District Court, governing the operation of its wastewater treatment plants. The consent decree was amended in 1996 and further modified with the 2002 Stipulation to the Amended Consent Decree (the Stipulation) to establish deadlines for the construction of new secondary treatment facilities, including the replacement of the existing St. Croix and Airport Lagoon (Charlotte Amalie) wastewater treatment plants. The Stipulation requires that the new St. Croix wastewater treatment plants be completed by the end of 2006 and the new Charlotte Amalie wastewater treatment plants be completed by the end of 2007. However, the plants were completed by the end of 2007 and 2008, respectively. The cost of both facilities is estimated at approximately $50 million. The Stipulation also establishes certain interim deadlines and performance standards that must be met by the Government pending completion of the new facilities. In addition, the Stipulation establishes specified penalties for violation of any of the deadlines or performance standards set forth therein. As of the date of the basic financial statements, the Government is current on all of its outstanding obligations pursuant to the stipulation. In January 2004, the Government's Legislature authorized the creation of the Virgin Islands Waste Management Authority (WMA) for the purpose of meeting environmental requirements of waste treatment in the U.S. Virgin Islands. On December 2004, the PFA issued revenue bonds amounting to $94 million for the purpose of constructing and rehabilitating wastewater treatment plants noted above.

On August 21, 2002, the Government and the United States Environmental Protection Agency (EPA) entered into a memorandum of understanding documenting the EPA's agreement to support the renewal of the Territorial Pollutant Discharge Elimination System permit for its St. Croix distillery operations provided that the Government make certain funding available to (i) conduct treatability studies regarding the Virgin Islands Rum Industries, Ltd. effluent and the means to mitigate its potential environmental effects in the vicinity of the discharge, (ii) identify practicable, available, reliable, and cost-effective potential mitigation measures, and (iii) implement (or assist in the implementation of) such mitigation measures in the event such measures are determined by the V.I. Department of Planning and Natural Resources after consultation with EPA to be necessary and appropriate. Pursuant to the memorandum of understanding, the Government's obligation to fund such activities is limited to $6 million in the aggregate, commencing on October 13, 2003. In June 2004, the Government entered into a three year contract with a locally licensed environmental consulting firm to facilitate the Government's commitments with the memorandum of understanding with the EPA.

12. Commitments and Contingencies (continued)

Primary Government (continued)

As of September 2004, the Government became a defendant in a lawsuit regarding the assessment of franchise taxes. Under the lawsuit, taxpayers asserted that franchise taxes should be assessed in accordance with Title 13 Virgin Islands Code Section 531(a). The plaintiff taxpayers interpret the definition of "capital stocks used in conducting business in the Virgin Islands" in the V.I. Code as tax collected only on the par value of the stock, while the Government's position is that the amount allocated should be over the par value and additional paid-in capital upon a subsequent reorganization. The Government also imposed a six-year statute of limitations on tax refund claims against the Government. Management believes that the ultimate liability of this case would not have a material adverse impact on the Government's overall financial position as reported in the government-wide financial statements.

Component Units

In September 1989, WAPA electric facilities were damaged by Hurricane Hugo. WAPA reconstructed the facilities with proceeds from insurance and FEMA. Subsequent to the receipt of funds, FEMA de-obligated approximately $7.9 million in questioned costs. Approximately $2.6 million of these questioned costs related to an oil spill that was subsequently settled with FEMA. During 1998, WAPA submitted a second appeal for $4.4 million of the remaining questioned costs, and agreed to refund approximately $900 thousand. During 1999, FEMA denied the second appeal and formally closed the disaster claim. WAPA has recorded a liability for $5.3 million related to the questioned costs. FEMA has not made a formal request for repayment of the funds.

In September 2004, WAPA electric facilities sustained damages amounting to $1.3 million due to Tropical Storm Jeanne. WAPA reported $978 thousand as a FEMA claim receivable as of June 30, 2007.

WAPA estimates that capital expenditures in connection with continuing capital improvements will be approximately $68.9 million for the Electric System and $17.7 million for the Water System during the year ended June 30, 2008.

12. Commitments and Contingencies (continued)

Component Units (continued)

The VIHA terminated a development contract in September 2001 pursuant to a clause in the contract that provided for termination for convenience. The other party has sued and claims damages in excess of $7 million. The Authority has filed a counterclaim. It is not possible to predict the eventual outcome of this case nor estimate any amount or range of potential loss in the event of an unfavorable outcome.

Several former employees have individually filed suits against the VIHA for wrongful discharge over the period 1997 through 2006. None of the cases are resolved and it is not possible to predict the eventual outcome, nor estimate the amount or range of potential loss in the event of an unfavorable outcome.

A subcontractor has sued the VIHA for nonpayment for work done in 2000. It is not possible to predict the eventual outcome nor estimate the amount or range of potential loss in the event of an unfavorable outcome.

In 2002, the Federal Aviation Administration (FAA) conducted an on-site wildlife evaluation of the St. Croix landfill, which is located next to the St. Croix airport. The FAA determined that the landfill posed an environmental and navigational threat to the airport due to flocks of birds that reside in the landfill area. The FAA may require VIPA to repay $9.3 million in federal grants and has refused further discretionary grants for the airport until VIPA shows progress toward closing the landfill. The landfill is under the jurisdiction of the PG. The PG has negotiated a remediation plan with FAA to close the landfill by December 2009. FAA accepted the plan, if such measures are implemented.

In connection with the purchase of lands adjacent to the airport, VIPA was awarded federal financial assistance in 2002 amounting to $8 million under a Real Property Acquisition Relocation Assistance Program. VIPA is in noncompliance with certain federal requirements of the assistance program. Noncompliance with requirements of federal financial assistance programs may result in a refund of the funds granted. VIPA management believes that noncompliance instances should not materially affect VIPA's financial position.

In 2006, the JFL Medical Center entered into an agreement for the construction of a Cancer Institute on the island of St. Croix. As of September 30, 2007, the Medical Center had outstanding contracts and commitments of $6.6 million.

12. Commitments and Contingencies (continued)

Component Units (continued)

WAPA, VIPA, and other discretely presented component units are presently a defendant or codefendant in various lawsuits. The financial managers of the component units have advised the PG that any adverse outcome involving a material claim is expected to be substantially covered by insurance. Government property is exempt from lien, levy, or sale as a result of any judgment under the Virgin Islands Code.

13. Retirement Systems

Plan Description

GERS is the administrator of a cost-sharing multiple-employer defined-benefit pension plan established as of October 1, 1959 by the Government to provide retirement, death, and disability benefits to its employees. The following description of the plan is provided for general information purposes only. Refer to the actual text of the retirement law in the V.I. Code, Title 3, Chapter 27 for more complete information. Regular employees are eligible for a full-service retirement annuity when they have completed 30 years of credited service or have attained the age of 60 with at least 10 years of credited service. Members who are considered “safety employees,” as defined in the V.I. Code, are eligible for full retirement benefits when they have earned at least 20 years of government service or have reached the age of 55 with at least 10 years of credited service. Regular employees who have attained the age of 50 with at least 10 years of credited service can elect to retire early with a reduced benefit. Senators and members of the Legislature may receive a retirement annuity when they have attained the age of 50 and completed six years of credited service or earned at least six years of credited service as a member of the Legislature.

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member’s average compensation. Average compensation is determined by averaging the three highest years of salary the member earned within the last 10 years of service. The maximum annual salary that can be used in this computation is $65,000 except for senators and judges, whose annual salary is used. The annuity payment to retirees 60 years or older increases by 1.5% of the original amount on July 1 of each year after the first year of payments.

GERS is a blended component unit included in the financial reporting entity and is presented as a pension trust fund of the PG. GERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Employees’ Retirement System of the Government of the Virgin Islands, 3438 Kronprindsens Gade, Veterans Drive, St. Thomas, VI 00802.

13. Retirement Systems (continued)

Funding Policy

Contributions to GERS are made by the Government and the members. Government and members contributions are not actuarially determined but are set by statute. The Government and members' contributions together with the income of GERS should be sufficient to provide an adequate actuarially determined reserve for the benefits prescribed by the VI Code.

The contributions required to fund GERS on an actuarial reserve basis are calculated periodically by the GERS actuarial consultant. The actuarial valuation as of September 30, 2003, performed on an entry age basis, indicates that the current combined statutory employer and employee contribution rates are not sufficient to meet the cost of GERS on an actuarial basis, as required by law.

The Government's required contribution for the year ended September 30, 2007 was 14.5% of the member's annual salary. Since April 1, 1991, required member contributions are 8% of annual salary for regular employees, 9% for senators, 11% for judges, and 10% for Act 5226 eligible employees. Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective June 29, 2000, legislation was passed that provided for 4% annual interest on refunded contributions. The Government's contractually required contributions, actual contributions made, and percentage contributed to the plan for the years ended September 30, 2007, 2006, and 2005, have been estimated based on the 2003 actuarial valuation as follows (expressed in thousands):

	Contractually Required Contributions	Contributions Made	Percentage Contributed
2005	$ 51,542	$ 51,542	100%
2006	$ 65,061	$ 65,061	100%
2007	$ 60,778	$ 60,778	100%

13. Retirement Systems (continued)

Funding Policy (continued)

In August 1994, legislation providing an early retirement incentive was passed. The legislation was subsequently amended on October 13, 1994, December 30, 1994, and December 5, 1995. Among other matters, the legislation allows a member of GERS who has a combined aggregate number of years of credited service plus number of years of age, equal to at least 75 years as of the date of the legislation, to retire without reduction of annuity. Members, who have attained the age of 50 with at least 10 but less than 30 years of credited service, may add an additional three years to their age for this computation. Members with 30 years of service or who can retire without penalty under the V.I. Code shall have their average compensation increased by four percentage points.

For each employee electing to retire pursuant to Section 8(a) of the Early Retirement Act of 1994 (the Act), the Government contributes to GERS, on a quarterly basis, an amount equal to the employer and employee contributions that would have been made until the employee reached the age of 62 had the employee not elected to retire under this provision.

For employees electing to retire under Section 8(b) of the Act, the Government contributes to GERS a sum equal to the additional contribution the employer and employee would have made had the employee received a salary 4% higher during the three years used to compute the employee’s average compensation figure plus a sum of $5,000. Based on this calculation, the amount was $26.7 million as of September 30, 2007. As of September 30, 2007, GERS has received $26.4 million of such amount.

The actuaries of GERS have determined that the specific funding provided under the Act is inadequate to cover the costs of the program. GERS is seeking to recover any unfunded costs of the program under a newly enacted provision of the retirement law, which provides that the Primary Government will compensate GERS for the costs of any special early retirement program.

13. Retirement Systems (continued)

Funding Policy (continued)

The University has two retirement plans in which all eligible employees are required to participate, the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and GERS. The TIAA-CREF is a defined-contribution pension plan covering participating, full-time faculty members and other exempt employees, under which the contributions, including employees' contributions, are used to purchase annuities. There are no unfunded past service costs, and vested benefits are equal to the annuities purchased under TIAA-CREF. As of September 30, 2007, 265 faculty members and other employees were TIAA-CREF participants. The number of active participants from the University participating in GERS as of September 30, 2007 was 264. Total contributions made by the University to TIAA-CREF and GERS participant accounts amounted to $2.1 million and $1.3 million, respectively.

14. Liquidity

At September 30, 2007, the Government had an unrestricted deficit in the governmental activities amounting to $327.5 million. The Government has initiated specific actions to improve its liquidity and future cash flows through the issuance of long-term debt, engaging a consulting firm to assist it in efforts to develop a series of detailed revenue enhancement and expenditure reduction initiatives and the enactment of certain laws directed toward improving the Government's financial situation.

In April 2000, the Economic Recovery Task Force submitted the five-year operating and strategic financial plan to the Governor for action. The plan provides over 200 recommendations that propose to reduce and eventually eliminate the budget deficit by restructuring and reforming Government operations and forging a partnership with the private sector intended to result in sustained growth.

15. Fund and Net Assets Deficit

The following non-major funds have a fund or net assets deficit as of September 30, 2007:

Governmental Funds	
Employment Security Administration	$ (1,024,021)
Rural Library Extension Fund	(559,005)
Federally-Aided Education Programs	(3,306,221)
Special Federal Grant to Education	(462,021)
Air & Water Pollution Control	(6,826,780)
V. I. Planning Board Projects	(1,838,186)
Highway Safety Fund	(3,657,981)
Ving Federal/State Agreement	(3,866,726)
Forestry Program Fund	(14,143)
Federal Programs / Dept Conservation	(1,432,047)
Federal-Aided CAA	(446,225)
Commission On Aging	(9,895)
Corporation Division Revolving Fund	(525,781)
JTPA of 1983-1984	(8,403,972)
Technical Assistance Grant - Capital	(20,197)
Lt Governor Law Revision Commission	(3,360)
Health Grants In Aid	(492,110)
Health Information Council Assist	(18,245)
Drug Education Training Program	(123,108)
Supplication Food Program (WIC)	(156,134)
Federal Health Program Not On L/C	(92,673)
Food Stamp Welfare	(4,252,780)
Health Insure & Medical Assist Program	(381,385)
Elementary / Secondary Education	(18,824)
Civil Defense Protection	(520,440)
Rural Community Fire Protection Program	(442,468)

Proprietary Funds	
Bureau of Motor Vehicles	$ (558,298)
Consumer Protection Fund	(200,000)
Agriculture Revolving Fund	(152,476)
Reciprocal Insurance Fund	(15,826,573)
Housing Construction Revolving Fund	(1,467,147)
Housing Construction Revolving Fund	(1,536,744)
Frederiksted Small Business Revolving Fund	(47,333)
Total Net Asset Deficit	**$ (19,788,571)**

15. Fund Balance and Net Assets Deficit (continued)

Governmental Funds	
Boating Safety Program	(807,918)
V. I. Law Enforcement	(8,691,836)
Vocational Rehabilitation	(1,803,916)
School Lunch Program Operations	(1,680,161)
Hurricane Hugo Insurance Claims	(3,912,658)
V. I. Army National Guard	(2,266,077)
Emergency Drought Relief	(185,244)
Outdoor Recreation Program	(40,178)
NSF Forfeiture Fund	(8,348)
SBDA Managerial / Technical Assistance	(8,065)
Voc-Tech Education Training Fund	(47,198)
Juvenile Detention CTR Fund	(14,149)
Road Fund	(6,329,517)
Bond Proceeds	(25,512,359)
Major Repair & Improvement Fund	(57,751)
Water & Electric System Project	(1,697,883)
Textbook Reimbursement Revolving	(159,919)
Paternity & Child Support	(11,074,402)
Public Transportation Fund	(1,072,220)
Home Aged Revolving Fund	(266,444)
Territorial Scholarship	(693,434)
Total Fund Deficit	$ (105,224,405)

16. Restatements of Net Assets and Fund Balances

The beginning fund balance of the General Fund was adjusted for an error in cash and cash equivalents as follows (expressed in thousands):

General Fund	As Previously Reported	Adjustments	As Restated
Fund balance, as of October 1, 2006	$ 228,018	$ 18,438	$ 246,456

Beginning net assets of governmental activities were also restated to correct (1) an error in cash and cash equivalents that resulted in an increase of $18.4 million and, (2) an increase in due from Federal government that resulted in an increase of $5.2 million as follows (expressed in thousands):

Governmental Activities	As Previously Reported	Adjustments	As Restated
Net deficit, as of October 1, 2006	$ (89,876)	$ 23,647	$ (66,229)

16. Restatements of Net Assets and Fund Balances (continued)

Component Units

Beginning net assets of five discretely presented component units were restated to correct material errors identified in prior years as follows (expressed in thousands):

Component Unit	As Previously Reported	Adjustments	As Restated
Virgin Islands Housing Authority	$ 64,827	$ (413)	$ 64,414
University of the Virgin Islands	78,391	86	78,477
Roy L Schneider Medical Center	68,361	–	68,361
Virgin Islands Housing Finance Authority	39,188	9,001	48,189
Virgin Islands Economic Development Authority	2,328	–	2,328
Virgin Islands Public Television System	8,101	(1,198)	6,903
Waste Management Authority	1,402	(735)	667
Other component units	400,593	–	400,593
Net Assets	$ 663,191	$ 6,741	$ 669,932

17. Subsequent Events

Primary Government

In January 2008, the PFA approved the issuance of $108 million in private activity bonds to be issued on behalf of the HOVENSA oil refinery. These bonds were issued utilizing the 2007 and 2008 annual tax exempt cap for the PFA.

In February 2008, the federal government passed an Economic Stimulus Act providing taxpayer rebates ranging from $300 to $1,200 depending on taxpayer income and filing status. Under the terms of the Act, the PG will be reimbursed by the federal government for rebates provided to taxpayers. Payments to taxpayers were sent out beginning in June 2008.

17. Subsequent Events (continued)

Primary Government (continued)

In March 2008, the PG passed legislation introducing new property tax rates. Property tax assessments for 2006, and for 2007, have been delayed pending this legislation, and compliance with court orders.

In July 2008, the PG passed legislation entering into a public-private partnership between the PG and spirits manufacturer, Diageo, USVI, Inc. Under the terms of the partnership, the PFA agreed to issue revenue bonds amounting to $250 million for the construction of a rum distillery on the island of St. Croix, with production capacity of 20 million gallons of rum per year. In July 2009, the PG issued the project bonds, the Subordinated Revenue Bonds, Virgin Islands Matching Fund Loan Note—Diageo Project Bonds Series 2009A. The bonds are funded by the return of excise taxes (matching funds) from the Federal government of $13.25 for each proof gallon of rum produced in the U.S. Virgin Islands and sold in the United States.

In January 2009, the PFA issued the Subordinate Lien Revenue Bond Anticipation Notes, Series 2009A amounting to $8 million to purchase Emergency 911 equipment.

In September 2009, the PFA issued the Series 2009B Subordinate Lien Revenue Notes (Virgin Islands Gross Receipts Taxes Loan Notes) in the amount of $250 million to provide the PG with working capital and to pay costs of issuance of the Notes.

Component Units

In April 2009, FEMA approved a Public Assistance program grant of $1.05 million to reimburse WAPA for the costs of repairs subsequent to Hurricane Omar in October 2008. WAPA expended $2.73 million in repairs following the hurricane. The U.S. Virgin Islands received a federal disaster declaration due to the damage.

In August 2009, VIPA received grants of $13.3 million and $960 thousand, respectively, from the United States Department of Transportation and Federal Aviation Administration for certain airport runway repairs.

In September 2009, the PFA issued $15.7 million in Tax Increment Bond Anticipation Notes to finance the public portions of a shopping complex on the island of St. Croix. Gross receipts taxes and property taxes generated by the project are pledged for the payment of the Notes.

17. Subsequent Events (continued)

Component Units (continued)

In October 2009, the PFA issued the Series 2009A-1, Series 2009A-2, Series 2009B, and Series 2009C Revenue and Refunding Bonds (Matching Fund Loan Notes) amounting to $458.8 million to finance capital projects amounting to $86.4 million and $8.6 million, to refinance the Revenue Bonds Series 1998A and Series 1998E amounting to $266.3 million and $97.5 million, respectively, and to pay the costs of the bond issuance.

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Honorable Governor
of the Government of the United States Virgin Islands:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government) as of and for the year ended September 30, 2007, which collectively comprise the Government's basic financial statements, and have issued our report thereon dated October 15, 2009. Our report was modified to include a reference to other auditors. In addition, the scope of our audit work was not sufficient to enable us to express, and we did not express, an opinion on the business-type activities and aggregate remaining fund information as of September 30, 2007, and the changes in financial position and cash flows, where applicable, for the year then ended, because the basic financial statements do not include liabilities for workers' compensation and medical malpractice claims and, accordingly, the Government has also not recorded an expense for the current period change in those liabilities. The Government's records do not permit, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the business-type activities and the aggregate remaining fund information may have been affected by this condition.

In addition, our auditors' report for the aggregate discretely presented component units and the governmental activities, based on our audit and the reports of other auditors, was qualified for the following:

- The effect of the adjustments, if any, as might be determined to be necessary, had the other auditors been able to obtain sufficient audit evidence to determine whether (1) land held for sale amounting to $25 million in the financial statements of VIHFA, (2) loan receivable of $6 million in the financial statements of VIEDA, and (3) capital assets of $10.8 million in the financial statements of VIPTS, were fairly stated, as described in paragraphs four, five, and six of the Report of Independent Auditors.

- The effects of the adjustments as might have been determined to be necessary, had we been able to obtain sufficient audit evidence to determine whether accrued compensated absences liability of $46.7 million in the governmental activities, were fairly stated, as described in paragraph nine of the Report of Independent Auditors.

Except as described above, we conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Virgin Islands Public Finance Authority (PFA), the West Indian Company (WICO), the Tobacco Settlement Financing Corporation (TSFC), Virgin Islands Housing Authority (VIHA), Virgin Islands Public Television System (WIPTS), Virgin Islands Lottery (VI Lottery), Virgin Islands Economic Development Authority (VIEDA), Magens Bay Authority (MBA), Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Juan F. Luis Hospital and Medical Center), Employees' Retirement System of the Government of the Virgin Islands (GERS), Waste Management Authority (WMA), and the Virgin Islands Housing Finance Authority (VIHFA), as described in our report on the Government's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the PFA, Juan Luis Hospital and Medical Center, MBS, TSFC, WMA, and GERS were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Government's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 07-01 through 07-12 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider items 07-01 through 07-12 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 07-02.

The Government's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Government's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Honorable Governor of the U.S. Virgin Islands, management, others within the entity, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

October 15, 2009

Required Supplementary Information
(other than MD&A)

Required Supplementary Information (other than MD&A)

Employees' Retirement System of the Government of U.S. Virgin Islands

Schedule of Funding Progress

September 30, 2007

Actuarial valuation date	(a) Actuarial value of assets	(b) Unfunded actuarial accrued liability (UAAL)	(c) Actuarial accrued liability (a) + (b)	(d) Funded Ratio (a)/(c)	(e) Annual covered payroll	UAAL as a percentage of covered payroll (b)/(e)
2005(*)	$1,366,982,183	$1,088,574,553	$2,455,556,736	55.67%	$355,462,276	306.24%
2006(**)	1,421,825,127	1,136,153,570	2,557,978,697	55.58%	381,983,539	297.44%
2007(***)	1,509,844,144	1,147,749,768	2,657,593,912	56.81%	419,161,255	273.82%

(*) Estimated based on the financial information provided as of September 30, 2005 for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2003 assuming that actual experience during the October 1, 2003 to September 30, 2005 matched that assumed by the actuarial assumptions.

(**) Estimated based on the financial information provided as of September 30, 2006 for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2003 assuming that actual experience during the October 1, 2003 to September 30, 2006 matched that assumed by the actuarial assumptions.

(***) Estimated based on the financial information provided as of September 30, 2007 for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2003 assuming that actual experience during the October 1, 2003 to September 30, 2007 matched that assumed by the actuarial assumptions.

Actuarial valuation -September 30, 2005 and thereafter:

Actuarial accrued liability determined under the entry age normal method.

Required Supplementary Information (other than MD&A)

Employees' Retirement System of the Government of U.S. Virgin Islands

Schedule of Employer Contributions

September 30, 2007

	Annual required contributions	**Contributions made**	**Percentage contributed**
Year ended September 30,			
2005*	$120,184,848	$51,542,030	42.89%
2006*	131,059,471	65,061,430	49.64%
2007*	138,663,669	60,778,382	43.83%

*Estimated based on Fiscal Year 2003 actuarial valuation.

Single Audit Report Section

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Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The Honorable Governor
of the Government of the United States Virgin Islands:

Compliance

We have audited the compliance of the Government of the United States Virgin Islands (the Government) with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended September 30, 2007. The Government's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the Government's management. Our responsibility is to express an opinion on the Government's compliance based on our audit.

The Government's basic financial statements include the operations of the discretely presented component units (as defined in the notes to the Government's basic financial statements) some of which received Federal awards, which are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2007. Our audit described below did not include the operations of the aforementioned component units because the component units engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Government's compliance with those requirements.

The Government did not comply with the types of compliance requirements that are applicable to each major Federal program as described in the accompanying schedule of findings and questioned costs and referenced by finding number below:

CFDA Number	Major Program	Compliance Requirement	Finding Reference
10.557	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	Activities Allowed or Unallowed	07-62
		Allowable Costs/Cost Principles	07-62
		Cash Management	07-19
		Eligibility	07-20
		Equipment and Real Property Management	07-18
		Period of Availability of Federal Funds	07-22
		Special Tests and Provisions – Compliance Investigation of High Risk Vendors	07-17
12.401	National Guard Military Operation and Maintenance (O&M) Projects	Activities Allowed or Unallowed	07-23
		Allowable Costs/Cost Principles	07-23
		Equipment and Real Property Management	07-24
14.218	Community Development Block Grants/ Entitlement Program	Activities Allowed or Unallowed	07-25, 07-62
		Allowable Costs/Cost Principles	07-25, 07-62
		Cash Management	07-26
		Matching, Level of Effort, Earmarking	07-29
		Period of Availability of Federal Funds	07-29
		Program Income	07-31
		Reporting	07-30
		Subrecipient Monitoring	07-28
		Special Test and Provisions – Required Certifications and HUD Approvals, Environmental Reviews and Rehabilitation	07-27
66.468	Capitalization Grants for Drinking Water State Revolving Fund	Activities Allowed or Unallowed	07-38, 07-62
		Allowable Costs/Cost Principles	07-38, 07-62
		Reporting	07-38
66.605	Performance Partnership Grants	Activities Allowed or Unallowed	07-40, 07-62
		Allowable Costs/Cost Principles	07-40, 07-62
		Cash Management	07-43
		Equipment and Real Property Management	07-41
		Matching, Level of Effort, Earmarking	07-39
		Period of Availability of Federal Funds	07-40
		Procurement and Supervision and Debarment	07-42
		Reporting	07-43

CFDA Number	Major Program	Compliance Requirement	Finding Reference
93.558	Temporary Assistance for Needy Families	Matching, Level of Effort, and Earmarking	07-45
		Reporting	07-45
		Eligibility	07-46
		Special Tests and Provisions – Income Eligibility and Verification System	07-47
93.563	Child Support Enforcement	Activities Allowed or Unallowed	07-62
		Allowable Costs/Cost Principles	07-62
		Cash Management	07-48
93.778	Medical Assistance Program	Cash Management	07-54
		Eligibility	07-49, 07-50
		Reporting	07-52, 07-55
		Special Test and Provisions – Utilization Control and Program Integrity	07-51
		Special Test and Provisions – ADP Risk Analysis and System Security Review	07-56
97.067	Homeland Security Grant Program	Activities Allowed or Unallowed	07-57, 07-58
		Allowable Costs/Cost Principles	07-57, 07-58
		Cash Management	07-59
		Equipment and Real Property Management	07-60
		Period of Availability of Federal Funds	07-58
		Reporting	07-61

Compliance with such requirements is necessary, in our opinion, for the Government to comply with the requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the table above, the Government did not comply, in all material respects, with the requirements referred to above that are applicable to the following major Federal programs: Special Supplemental Nutrition Program for Women, Infants and Children (WIC) (CFDA No. 10.557); National Guard Military Operations and Maintenance (O&M) Projects (CFDA No. 12.401); Community Development Block Grants/Entitlement Program (CFDA No. 14.218); Capitalization Grants for Drinking Water State Revolving Fund (CFDA No. 66.468); Performance Partnership Grants (CFDA No. 66.605); Temporary Assistance for Needy Families (CFDA No. 93.558); Child Support Enforcement (CFDA No. 93.563); Medical Assistance Program (CFDA No. 93.778); and Homeland Security Grant Program (CFDA No. 97.067) for the year ended September 30, 2007.

The Government did not comply with the types of compliance requirements that are applicable to each major Federal program as described in the accompanying schedule of findings and questioned costs and referenced by the finding numbers below:

CFDA Number	Major Program	Compliance Requirement	Finding Reference
10.551/10.561	Food Stamps Cluster	Activities Allowed or Unallowed	07-62
		Allowable Costs/Cost Principles	07-62
		Matching, Level of Effort and Earmarking	07-15
		Reporting	07-13
		Special Tests and Provision – ADP Systems for Food Stamps (Eligibility)	07-14
17.225	Unemployment Insurance	Activities Allowed or Unallowed	07-62
		Allowable Costs/Cost Principles	07-62
		Cash Management	07-34
		Eligibility	07-37
		Reporting	07-35
		Special Tests and Provisions – Employer Experience Rating	07-36
		Special Tests and Provisions – UI Benefit Payments	07-33

Compliance with such requirements is necessary, in our opinion, for the Government to comply with the requirements applicable to those programs.

Also, in our opinion, except for the noncompliance described in the table above, the Government complied, in all material respects, with the requirements referred to that are applicable the following major Federal programs: Food Stamps Cluster (CFDA No. 10.551/10.561) and Unemployment Insurance (CFDA No. 17.225) for the year ended September 30, 2007.

Moreover, in our opinion, the Government complied, in all material respects, with the requirements referred to in the first paragraph, that are applicable to each of its major Federal programs other than those major programs referred to in the two preceding tables for the year ended September 30, 2007.

The results of our auditing procedures also disclosed other instances of non-compliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 07-16.

Internal Control over Compliance

The management of the Government is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the Government's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 07-13 and 07-15 through 07-62 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 07-13 and 07-15 through 07-62 to be material weaknesses.

The Government's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Government's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Honorable Governor of the Government of the United States Virgin Islands, management, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

October 15, 2009

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2007

Federal CFDA Number	Federal grantors/Program or cluster title	Federal Expenditures
	U.S. Department of Agriculture	
10.025	Plant and Animal Disease, Pest Control, and Animal Care	$ 317,136
10.056	Farm Storage Facility Loans	23,300
10.551	Food Stamps	21,028,177
10.561	State Administrative Matching Grants for Food Stamp Program	226,129
	Food Stamps Cluster total (10.551/561)	21,254,306
10.555	National School Lunch Program	5,326,919
10.559	Summer Food Service Program for Children	655,836
	Child Nutrition Cluster total (10.555/559)	5,982,755
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	4,698,497
10.558	Child and Adult Care Food Program	5,818
10.560	State Administrative Expenses for Child Nutrition	341,767
10.568	Emergency Food Assistance Program (Administrative Costs)	7,990
10.678	Forest Stewardship Program	5,356
10.664	Cooperative Foresty Assistance	180,359
10.676	Forest Legacy Program	540
10.678	Forest Stewardship Program	51,187
	Total U.S. Department of Agriculture	32,869,011
	U.S Department of Commerce	
11.302	Economic Development Support for Planning Organizations	31,874
11.407	Interjudisdictional Fisheries Act of 1986	13,971
11.419	Coastal Zone Management Administration Awards	902,368
11.426	Financial Assistance for National Centers for Coastal Ocean Science	158,246
11.427	Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	19,278
11.433	Marine Fisheries Initiative	6,259
11.434	Cooperative Fisheries Statistics	74,699
11.435	Southeast Area Monitoring and Assessment Program	24,023
11.441	Regional Fishery Management Councils	165
	Total U.S. Department of Commerce	1,230,883
	U.S Department of Defense	
12.401	National Guard Military Operations and Maintenance (O&M) Projects	3,396,599
	U.S Department of Housing and Urban Development	
14.218	Community Development Block Grants/ Entitlement Grants	2,858,595
14.225	Community Development Block Grants/ Special Purpose Block Grants/Insular Areas	1,190
	Total U.S. Department of Housing and Urban Development	2,859,785

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Federal CFDA Number	Federal grantors/Program or cluster title	Federal Expenditures
	U.S Department of the Interior	
15.605	Sport Fish Restoration	736,696
15.611	Wildlife Restoration	1,559,056
	Fish and Wildlife Cluster Total (15.605/611)	2,295,752
15.608	Fish and Wildlife Management Assistance	10,959
15.612	Endangered Species Conservation	89,843
15.615	Cooperative Endangered Species Conservation Fund	4,000
15.625	Wildlife Conservation and Restoration	4,694
15.626	Hunter Education and Safety Program	8,775
15.634	State Wildlife Grants	752
15.875	Economic , Social, and Political Development of the Territories	1,051,904
15.904	Historic Preservation Fund Grants - In-Aid	890,399
	Total U.S. Department of the Interior	4,357,078
	U.S Department of Justice	
16.202	(Prisoner Re-entry Inititative Demonstration) (Offender Re-entry)	279,051
16.523	Juvenile Accountability Incentive Block Grants	64,022
16.540	Juvenile Justice and Deliquency Prevenion - Allocation to States	189,174
16.554	National Criminal History Improvement Program (NCHIP)	70,759
16.575	Crime Victim Assistance	628,895
16.579	Edward Byrne Memorial Formula Grant Program	1,124,515
16.586	Violent Offender Incarceration and Thruth in Sentencing Initiative Grants	10,965
16.588	Violent Against Women Formula Grants	711,953
16.592	Local Law Enforcement Block Grants Program	3,090
16.593	Residential Substance Abuse Treatment for State Prisoners	137,170
16.595	Community Capacity Development Office	576
16.606	State Criminal Alien Assistance Program	28,918
16.710	Public Safety Partnership and Community Policing Grants	1,195,383
16.738	Edward Byrne Memorial Justice Assistance Grant Program	478,725
	Total U.S. Department of Justice	4,923,196
	U.S Department of Labor	
17.002	Labor Force Statistics	392,686
17.005	Compensation and Working Conditions	29,784
17.207	Employment Service/Wagner-Peyser Funded Activities	1,312,997
17.225	Unemployment Insurance	9,725,357
17.235	Senior Community Service Employment Program	972,526
17.258	WIA Adult Program	1,545,269
17.259	WIA Youth Activities	353,145
	Workforce Investment Act cluster total (17.258/259)	1,898,414
17.504	Consultation Agreements	25,939
	Total U.S. Department of Labor	14,357,703

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Federal CFDA Number	Federal grantors/Program or cluster title	Federal Expenditures
	U.S Department of Transportation	
20.205	Highway Planning and Construction	6,294,897
20.218	National Motor Carrier Safety	40,542
20.500	Federal Transit - Capital Investment Grants	205,602
20.509	Formula Grants for Other than Urbanized Areas	302,291
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	2,666
20.514	Public Transportation Research	8,906
20.600	State and Community Highway Safety	1,005,403
	Total U.S. Department of Transportation	7,860,307
	National Foundation on the Arts and Humanities	
45.310	Grants to States	102,725
	U.S Enviromental Protection Agency	
66.034	Surveys, Studies, Investigations, Demostrations and Special Purpose Activities Relating to the Clean Air Act	26,217
66.418	Construction Grants for Wastewater Treatment Works	59,419
66.454	Water Quality Managmeent Planning	419
66.468	Capitalization Grants for Drinking Water State Revolving Fund	1,009,481
66.472	Beach Monitoring and Notification Program Implementation Grants	286,487
66.474	Water Protection Grants to States	7,937
66.605	Performance Partnership Grants	2,444,695
66.606	Surveys, Studies, Investigations, and Special Purpose Grants	331,781
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	31,587
66.805	Leaking Underground Storage Tank Trust Fund	30,997
66.818	Brownfield Assessment and Cleanup Cooperative Agreements	157,844
	Total U.S. Environmental Protection Agency	4,386,864
	U.S Department of Energy	
81.041	State Energy Program	487,194
	U.S Department of Education	
84.002	Adult Education - State Grant Program	127,189
84.027	Special Education - State Grant Program (IDEA, Part B)	1,500,639
84.041	Impact Aid	436,566
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	2,444,036
84.169	Independent Living - State Grants	58,378
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	6,075
84.181	Special Education - Grants for Infants and Families with Disabilities	521,916
84.185	Byrd Honors Scholarships	30,000
84.186	Safe and Drug-Free Schools and Communities State Grants	646,452
84.187	Supported Employment Services for Individuals with Severe Disabilities	41,277
84.298	State Grants for Innovative Programs (Part A, Title V)	4,831,802
84.357	Reading First State Grants	399,835
84.364	Literacy through School Libraries	5,172
84.365	English Language Acquisition Grant	21,051
	Total U.S. Department of Education	11,070,387

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Federal CFDA Number	Federal grantors/Program or cluster title	Federal Expenditures
	U.S. Department of Health and Human Services	
93.003	Public Health and Social Services Emergency Fund	154,028
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	127,265
93.048	Special Programs for the Aging-Title IV-and Title II-Discretionary Projects	69,450
93.069	Public Health Emergency Preparedness	811,862
93.110	Maternal and Child Health Federal Consolidated Programs	4,875
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	57,282
93.127	Emergency Medical Services for Children	62,740
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	52,534
93.136	Injury Prevention and Control Research and State and Community Based Programs	7,528
93.150	Projects for Assistance in Transition from Homelessness (PATH)	50,000
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	221,516
93.217	Family Planning-Services	866,858
93.224	Consolidated Health Centers	69,781
93.235	Abstinence Education Program	17,910
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	1,448,238
93.268	Immunization Grants	916,328
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	322,919
93.558	Temporary Assistance for Needy Families	6,605,857
93.563	Child Support Enforcement	4,174,047
93.575	Child Care and Development Block Grant	1,626,478
93.597	Grants to States for Access and Visitation Programs	110,451
93.600	Head Start	9,037,439
93.617	Voting Access for Individuals with Disabilities-Grants to States	203,554
93.667	Social Services Block Grant	5,879,704
93.767	State Children's Insurance Program	1,561,620
93.778	Medical Assistance Program	5,077,114
93.782	Medicare Transitional Drug Assistance Program for Territories	57,215
93.889	National Bioterrorism Hospital Preparedness Program	199,611
93.917	HIV Care Formula Grants	1,669,872
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	41,431
93.943	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	409,009
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	143,443
93.958	Block Grants for Community Mental Health Services	94,051
93.959	Block Grants for Prevention and Treatment of Substance Abuse	520,931
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	171,890
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	185,201
93.991	Preventive Health and Health Services Block Grant	106,285
93.994	Maternal and Child Health Services Block Grant to the States	1,560,769
	Total U.S. Department of Health and Human Services	44,697,086

Schedule of Expenditures of Federal Awards (continued)

Federal CFDA Number	Federal grantors/Program or cluster title	Federal Expenditures
	Corporation for National and Community Service	
94.002	Retired and Senior Volunteer Program	30,316
94.011	Foster Grandparent Program	215,550
	Total Corporation for National and Community Service	245,866
	Executive Office of the President	
95.001	High Intensity Drug Trafficking Program	75,167
	Department of Homeland Security	
97.012	Boating Safety Financial Assistance	282,400
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	220
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)	1,399,084
97.044	Assistance to Firefighters Grant	63,273
97.067	Homeland Security Grant Program	4,020,843
97.070	Map Modernization Management Support	17,000
97.073	State Homeland Security Program	257,324
97.078	Buffer Zone Protection Program	38,927
	Total Department of Homeland Security	6,079,070
	Total expenditures of federal awards	$ 138,998,921

See accompanying notes.

Government of the United States Virgin Islands

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2007

1. Basis of Presentation

For purposes of complying with the Single Audit Act Amendments of 1996, the Government of the United States Virgin Islands (the Government or GVI) is defined in a manner consistent with the entity defined in the basic financial statements as of and for the year ended September 30, 2007, except that the component units (as defined in the notes to the aforementioned basic financial statements) are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the Federal financial assistance programs administered by the Government for the year ended September 30, 2007, excluding the component units.

2. Basis of Accounting

The accompanying Schedule was prepared using the modified accrual basis of accounting, except for nonmonetary programs, which are presented based on the fair value of the food stamps (CFDA #10.551 in the amount of $21,028,177) and the food commodities (CFDA #10.555 in the amount of $5,326,919) distributed during the year. The Government's accounting system provides the primary information from which the Schedule is prepared.

3. Matching Costs

Matching costs, such as the nonfederal share of certain program costs, are not included in the accompanying Schedule, except Unemployment Insurance (CFDA No. 17.225), as indicated in Note 6.

4. Relationship to Federal Financial Reports

The regulations and guidelines governing the preparation of Federal financial reports vary by Federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the Federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule, which is prepared on the basis explained in Notes 1 and 2.

Office of Management and Budget (OMB) Circular A-133 requires that Federal financial reports and claims for advances and reimbursements contain information that is supported by the books and records from which the basic financial statements have been prepared. The Government's departments prepare the Federal financial reports and claims for advances and reimbursements primarily based on information from the internal accounting records of the respective Federal

4. Relationship to Federal Financial Reports (continued)

program departments. However, these records do not agree with the accounting records of the Government's accounting system in all instances. The Government's departments, in various instances, do not prepare a reconciliation of the internal accounting records of the Federal programs with the Government's accounting system. See Finding No. 07-12.

5. Consolidated Block Grants

The Government was granted a consolidated grant award under Title V of Public Law 95-134. The consolidated grant to insular areas permits the consolidation of two or more authorized programs under one application to provide for simplified reporting procedures and flexibility in allocating funds to meet educational needs. The most significant programs under which the Virgin Islands' Department of Education used and administered the funds and the cash disbursements for each program for the fiscal year ended September 30, 2007 are the following:

Federal CFDA Number	Program Title	Expenditures
84.002	Adult Education – State Grant Programs	$ 127,189
84.027	Special Education State Grant Programs (IDEA, Part B)	1,500,639
84.298	State Grants for Innovative Programs (Part A, Title V)	4,831,802
		$6,459,630

6. Unemployment Insurance Expenditures

OMB Circular A-133 Compliance Supplement requires the Unemployment Insurance Program (CFDA No. 17.225) to include the state funds as well as the Federal funds in the total expenditures of the program. Consequently, the total amount of expenditures presented in the accompanying Schedule is composed of the following:

Federal fund expenditures	$ 2,191,785
State fund expenditures	7,533,572
Total expenditures	$ 9,725,357

Government of the United States Virgin Islands

Schedule of Findings and Questioned Costs

September 30, 2007

Part I – Summary of Auditors' Results

Financial Statement Section

Type of auditor's report issued on the basic financial statements:

Opinion Unit	Type of Report
Governmental activities	Qualified
Business-type activities	Disclaimer
Discretely presented component units	Qualified
General fund	Unqualified
PFA debt service fund	Unqualified
PFA capital projects fund	Unqualified
West Indian Company fund - enterprise fund	Unqualified
Aggregate remaining fund information	Disclaimer

Internal Control over Financial Reporting

Material weaknesses identified?.. Yes

Significant deficiencies identified that are not considered to be material weaknesses?...... Yes

Noncompliance material to financial statements noted?.. Yes

Federal Award Section

Internal control over major programs:

Material weaknesses identified?.. Yes

Significant deficiencies identified that are not considered to be material weaknesses?.........Yes

Part I – Summary of Auditors' Results (continued)

Federal Award Section (continued)

Type of auditor's report issued on compliance for major programs:

CFDA Number	Major Program	Type of Report Issued on Compliance
10.551,10.561	Food Stamp Cluster	Qualified
10.555,10.559	Child Nutrition Cluster	Unqualified
10.557	Special Supplemental Nutrition Program for Women, Infants and Children	Adverse
12.401	National Guard Military Operations and Maintenance (O&M) Projects	Adverse
14.218	Community Development Block Grants/Enhancement Grants	Adverse
17.225	Unemployment Insurance	Qualified
66.468	Capitalization Grants for Drinking Water State Revolving Fund	Adverse
66.605	Performance Partnership Grants	Adverse
84.298	State Grants for Innovative Programs (Part A, Title V)	Unqualified
93.558	Temporary Assistance for Needy Families	Adverse
93.563	Child Support Enforcement	Adverse
93.778	Medical Assistance Program	Adverse
97.067	Homeland Security Grant Program	Adverse

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133………………………………… Yes

Part I – Summary of Auditors' Results (continued)

Identification of Major Programs

CFDA Number	Major Program
10.551,10.561	Food Stamp Cluster
10.555,10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
12.401	National Guard Military Operation and Maintenance (O&M) Projects
14.218	Community Development Block Grants/Enhancement Grants
17.225	Unemployment Insurance
66.468	Capitalization Grants for Drinking Water State Revolving Fund
66.605	Performance Partnership Grants
84.298	State Grants for Innovative Programs (Part A, Title V)
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.778	Medical Assistance Program
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs:… $3 million

Auditee qualified as low-risk auditee:………………………………………………… No

Part II – Financial Statements Findings Section

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-01

Topic
The Government has control deficiencies in its internal control structure, accounting and financial management systems, budgetary controls and financial reporting practices. Due to their nature and magnitude, several of these deficiencies are considered to be a material weakness.

Category
Internal Control

Criteria
Auditees must prepare their financial statements in accordance with accounting principles generally accepted in the United States (GAAP). OMB Circular A-133 section 310, states that the auditee shall prepare financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited.

GASB Codification Section 1100, *Summary Statement of Principles*, states that a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with GAAP, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

GASB Codification Section 1300, *Fund Accounting*, states that governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts to record cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

GASB Codification Section 1900, states that governmental entities should prepare interim and year-end financial statements and reports of financial position, operating results, and other pertinent information to facilitate management control of financial operations, legislative oversight, and for external reporting purposes.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-01 (continued)

Criteria (continued)
OMB Circular A-102 Subpart C, Section 20, states that a state must expend and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the state, as well as its subgrantees and cost-type contractors, must be sufficient to permit preparation of reports required by this part and the statutes authorizing the grant, and permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes. The financial management systems must meet the following standards:

- *Financial reporting:* accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

- *Accounting records:* grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

- *Internal control:* effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

- *Budget control:* actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

- *Allowable cost:* applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-01 (continued)

Criteria (continued)

- *Source documentation:* accounting records must be supported by such source documentation as canceled checks, paid invoices, payrolls, time and attendance records, contract and subgrant award documents, etc.

- *Cash management:* procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.

In addition to the above requirements, the Government's internal control system must provide for reconciliation of amounts reflected in control accounts with subsidiary records and the reconciliation of transactions and balances between different departments and agencies.

Condition Found

The Government has inadequate internal controls and has not established accounting policies, procedures, and financial reporting practices necessary to conform to generally accepted accounting principles (GAAP), as applicable to governmental entities. Significant deficiencies noted are as follows:

- There is a lack of effective internal controls to reasonably assure compliance with the requirements of Federal laws, regulations and Program compliance requirements. The Government has deficiencies in internal control such as the absence of sufficient level of control consciousness throughout all of the Government's separate administrative operations, the absence of an appropriate segregation of duties, the absence of appropriate management review and approval of transactions, accounting entries and financial and other reporting.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-01 (continued)

Condition Found (continued)

- There are inadequate procedures for appropriately assessing and applying accounting principles, inadequate provisions for the safeguarding of assets, the absence of an accounting procedures manual and the absence of many controls considered appropriate for an entity of this size and type.

- Supporting documentation was not available to support several transactions selected for audit.

Due to their nature and magnitude, these control deficiencies are considered to be a material weakness.

Questioned Costs
Not applicable.

Underlying Cause
The Government's management has not adopted and enforced internal control policies and procedures over its accounting and financial management, budgetary practices and financial reporting.

Effect
The Government's ineffective internal controls are conducive to many deficiencies as described in the numerous findings contained in this report. The continued existence of these deficiencies could result in significant cost disallowances by the Federal awarding agencies due to unsupported or inappropriate costs, or ultimately, in the reduction or elimination of Federal awards received by the Government.

Recommendation
The Government should implement internal controls to provide reasonable assurance that:

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and Federal reports; maintain accountability over assets; and demonstrate compliance with laws, regulations, and other compliance requirements

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-01 (continued)

Recommendation (continued)

- Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

- Supporting documentation for all transactions, including canceled checks, paid invoices, payrolls, time and attendance records, etc., should be maintained and appropriately stored and filed to evidence underlying transactions and activities.

Management's Response

With the exception of the comments noted with respect to the lack of policy and procedure documents, which were in place and updated via various correspondences to government agencies and departments, we concur with the auditors' findings and recommendations.

To begin the process of addressing the findings noted in 07-01 above, the GVI implemented the Tyler-Munis Enterprise Resource Planning (ERP) financial management system, effective October 1, 2006. While an assessment with respect to the effectiveness and efficiency of the ERP financial management system throughout the GVI can be reasonably measured over a three to five year time horizon, the incremental impact of these attributes has been immediate, albeit with a variety of latent and patent challenges identified along the way. Nonetheless, the GVI recognizes that the ERP financial management system by itself does not equate to credibility unless updated policies and procedures surrounding the internal control structure are well documented, communicated, consistently followed and fully embraced by the separate administrative operations throughout the GVI.

The initial implementation of the ERP financial management system commenced with several "core" modules (i.e., Purchasing/Requisitions, Accounts Payable, Cash Receipts, Treasury Management, General Ledger, Budgeting and Fixed Assets) which have served to gradually minimize the ineffectiveness of the internal controls of the GVI. These core modules, which conform to generally accepted accounting principles (GAAP), along with the training of GVI personnel to utilize the capabilities of the ERP financial management system and documented policies and procedures, have improved the effectiveness of the GVI's internal controls dramatically.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-01 (continued)

Management's Response (continued)
For example, to address the deficiency in locating supporting documentation underlying each transaction that is eventually posted to the general ledger, all transactions are electronically attached with the necessary supporting documentation and stored within the ERP financial management system for proper review and/or retrieval. Moreover, through the embedded levels of workflow approval within the ERP financial management system, which is decentralized at the departmental/agency by specific staff (i.e., segregation of duties) that have limited access to accounts for their respective department/agency through permissions and security; there is a low probability that a transaction will be approved by a Department/Agency Head (i.e., management review and approval) prior to being forwarded to the Department of Property and Procurement (P&P) for procurement review and funding availability approval and finally to the Department of Finance (DOF) for final review and subsequent payment. Note that, both P&P and DOF also have mutually exclusive workflow approval processes that serve to minimize (or eliminate) the likelihood of missing supporting documentation, that further enhances management review and approval of transactions, as well as accounting entries and financial and other reporting.

Although the ERP financial management system has enabled the GVI to make significant improvements in the proper recording and accounting of transactions to permit the preparation of reliable financial statements and Federal reports, the reconciliation of these transactions to ensure compliance with laws, regulations and other compliance requirements will require additional effort and oversight by department/agencies, the Office of Management and Budget (OMB) and DOF.

The first step in accomplishing this task is to provide department/agencies with a set of standard reports that should be reviewed on a monthly basis for completeness prior to the DOF's established cut-off dates for closing monthly periods. These standard reports emanating from the ERP financial management system, along with the policies and procedures supporting them, will be communicated to agencies/departments as the "official" set of records/reports that should be leveraged in the preparation of external Federal reports. These Federal reports will then be reviewed at departmental/agency level by the appropriate Program Manager responsible for

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-01 (continued)

Management's Response (continued)
external Federal reporting leveraging the "official" set of records/reports from the T-M ERP system as the supporting documentation. Once this review is complete, it will be forwarded to the Department/Agency Certifying Officer and Agency Head for final review and dissemination to the respective external Federal reporting entities.

Finally, to ensure that funds, property and other assets are safeguarded against loss from unauthorized use or disposition, the ERP system serves to partially mitigate this circumstance. For example, aside from the well-established inter/intra-workflow approval process that exists to manage, review and approve transactions, from a funding standpoint, the "allotment lever" utilized by the OMB within the Budgeting module, serves as a strong mechanism to safeguard and control the authorized flow of funds by departments/agencies at the outset of initiating a transaction. These funding controls are further strengthened via a multi-level review at P&P, as well as the DOF (i.e., Accounting and Treasury Divisions). Conversely, the control environment surrounding property has been improved through the implementation and oversight of the Fixed Asset Module by P&P, as well as the ancillary policies and procedures that permit the GVI to cross-reference the detailed items resident within the ERP financial management system.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-02

Topic
The Government did not comply with the established due date for the submission of the required Single Audit Report.

Category
Internal Control and Compliance

Criteria
OMB Circular A-133, Subpart C, Section 320a establishes that all audits shall be completed and submitted to the cognizant agency within the earlier of 30 days after receipt of the auditor's report or nine (9) months after the end of the audit period.

Condition Found
The Government did not comply with the required submission date of the Single Audit for the fiscal year ended September 30, 2007. The due date for this report was no later than June 30, 2008.

Questioned Costs
Not applicable.

Underlying Cause
Due to the failure to ensure that adequate accounting records exist and that the timely and accurate closing of books occurs, management did not comply with the requirements established in OMB Circular A-133.

Effect
The Government could be exposed to a reduction or elimination of funding by the Federal awarding agencies.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-02 (continued)

Recommendation

The Government should establish monthly and year-end closing schedules and improve its year-end closing procedures to allow for the timely completion of its financial statements and performance of the Single Audit and enable the Government to comply with the reporting requirements established by applicable regulations.

Management's Response

GVI concurs with the auditors' findings and recommendations.

To begin the process of addressing the findings noted in 07-02 above, the GVI implemented the Tyler-Munis Enterprise Resource Planning (ERP) financial management system, effective October 1, 2006. Although the DOF has fully communicated to departments/agencies the establishment of monthly closing schedules to effectuate the timely issuance of the Single Audit, the enforcement of this policy cannot be fully achieved until the outstanding audit for Fiscal Year 2008 is completed.

More specifically, the ERP financial management system is meant to accommodate having two (2) fiscal periods open at a time to ensure that monthly closings are performed. The implication of having more than two fiscal periods open obviates the institution of monthly closings for the GVI because the system will remain in a "soft close" mode (rather than "hard close") until all final adjustments are included. Given the unenviable position of having more than two fiscal periods open and its direct correlation to other anomalies in the ERP financial management system, the GVI's resolve has strengthened to become more timely in meeting the criteria under OMB Circular A-133, Subpart C, § 320 of the Uniform Administrative Requirements for Grants Agreements.

As such, the GVI has embarked on an approach to addressing the timeliness of financial statement issuance within the 270 day criteria outlined in OMB Circular A-133, by endeavoring toward the completion of the Fiscal Year 2008 outstanding audit within a timeframe that allows for full performance of the monthly closing schedules in Fiscal Year 2010.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-03

Topic
The Government's lack of control over the tax revenue process led to significant audit adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such significant deficiency in internal controls is considered to be a material weakness.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
Management's judgmental estimates over its tax revenue process were not entirely supported, resulting in significant audit adjustments. The following items resulted in audit adjustments which could have been prevented had Management implemented sound internal controls over its estimation processes: (a) Management did not include an estimate of tax revenues of the current fiscal year to be collected in the subsequent fiscal year, (b) the allowance for doubtful accounts for tax receivables was not properly supported and was significantly understated, and (c) the financial statements did not include an estimate of revenues to be collected from the Internal Revenue Service related to the additional child tax credit, which resulted in a prior period error in the financial statements.

Questioned Costs
Not applicable.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-03 (continued)

Underlying Cause
The Government's financial statements have grown in complexity. Additionally, supervisory review of the tax revenue process was not effective in all instances. Coordination between the DOF and the Internal Revenue Bureau in the review process is essential in arriving to sound tax revenue estimates and financial statement close process adjustments.

Effect
The lack of supervisory review led to significant adjustments in the Government's financial statements. This resulted in a material misstatement of the financial statements going undetected.

Recommendation
The Government's DOF and the Internal Revenue Bureau should be more closely involved in the monitoring and review of the tax revenue process. Management should consider performing this process on a quarterly basis in order to detect and correct errors on at timely basis, while enhancing the Government's knowledge over its financial condition.

Management's Response
The Government of the Virgin Islands (GVI) concurs with the auditors' findings.

The Bureau of Internal Revenue (BIR) maintains a dedicated AS400 system to account for the tax revenues of the Virgin Islands Government which it administrates and collects. This system is completely separate and is not integrated with the Enterprise Resource Planning (ERP). Currently, BIR is in the process of enhancing the AS400 to enable more information sharing on a summarized level so as not to violate any disclosure guidelines. In the interim and throughout the fiscal year, the Governor's Financial Team monitors tax revenues closely and will make adjustments, as necessary. The DOF and IRB will work closely in the review of the allowance for doubtful accounts, the estimate of revenues to be collected from the Internal Revenue Service related to the child tax credit, and the estimate of tax revenues of the current fiscal year to be collected in the subsequent fiscal year, to ensure the appropriate data is used in these estimation processes.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-04

Topic
The Government's lack of control over the grant revenues and expenditures process led to significant adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such significant deficiency in internal controls is considered to be a material weakness.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
Management's procedures over its federal grant revenues and expenditures did not prevent or detect timely the following errors: (a) Department of Education federal revenues and expenditures made by the Government's third party fiduciary on behalf of the Government were not recorded in the financial statements and, (b) grant revenues, at times, were recorded as a reduction of expenditures in the Government's financial statements instead of an increase of grant revenues as required under GAAP.

Questioned Costs
Not applicable.

Underlying Cause
The Government's financial statements have grown in complexity. Additionally, supervisory review of the grant revenues and expenditures was not effective in all instances. Coordination between the Office of Management and Budget and the DOF is essential in ensuring federal grants and expenditures are properly recorded financial statements of the Government.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-04 (continued)

Effect
The lack of supervisory review led to significant adjustments in the Government's financial statements. This could result in a material misstatement of the financial statements.

Recommendation
The Government's DOF and OMB should coordinate the performance quarterly reconciliations of grant revenues and expenditures in order to detect and correct errors on at timely basis, while enhancing the Government's knowledge over its financial condition as is relates to federal grants

Management's Response
The Government of the Virgin Islands (GVI) concurs with the auditors' finding and recommendation related to the GVI's procedures over its federal grant revenues and expenditures.

Upon recognition, during Fiscal Year 2008, that federal grant revenues were being recorded as a reduction of expenditures in the GVI's books and records, the Director of Treasury was alerted to this incorrect procedure and an immediate change to record all revenues in the appropriate revenue object code agreed upon and implemented.

The Department of Finance (DOF) and Department of Education (DOE) is developing an automated interface that will capture federal revenues and expenditures made by the GVI's third party fiduciary and mitigate the deficiency of not recording these transactions on the books and records of the GVI. It is expected that this automated interface between DOF and DOE's third party fiduciary will be fully operational during Fiscal Year 2010.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-05

Topic
The Government's lack of control over the litigation liability estimation process led to significant adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such significant deficiency in internal controls is considered to be a material weakness.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
Lack of timely information and coordination between the Office of the Attorney General and the Department of Finance led to a significant error in the litigation liability estimate recorded by management.

Questioned Costs
Not applicable.

Underlying Cause
Litigation liability estimates were not available to management at the time of the preparation of financial statements.

Effect
The lack of coordination between the Office of the Attorney General and Department of Finance led to significant adjustments in the Government's financial statements. This resulted in a material misstatement of the financial statements.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-05 (continued)

Recommendation
The Government's management should be more closely involved in the monitoring and review of the litigation liability estimation process, in order to detect and correct errors on at timely basis, while enhancing the Government's knowledge over its financial condition. A formal process should be established for a quarterly discussion between the Department of Finance and the Office of the Attorney General of new significant cases and changes to existing cases and the corresponding effects on the financial statements of the Government.

Management's Response
The Government of the Virgin Islands (GVI) concurs with the auditors' finding and recommendation related to the litigation liability estimation process.

The Department of Finance and Department (DOF) of Justice (DOJ) have agreed to coordinate a meeting on a quarterly basis, beginning December 2009, to perform a review of the litigation liability estimation process that will detect and correct errors in a timely manner. The quarterly discussions between DOJ and DOF will include a review of significant changes (i.e., new cases or changes to existing cases), which will have a material effect on the interim and year-end financial statements of GVI.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-06

Topic
The Government's lack of control over the pooled cash reconciliation process led to a significant adjustment in the financial statements. Due to the nature and magnitude of this control deficiency, such significant deficiency in internal controls is considered to be a material weakness.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
Management's controls over its pooled cash reconciliation process did not detect an error in pooled cash in the general fund that resulted in a prior period error.

Questioned Costs
Not applicable.

Underlying Cause
Supervisory review of the pooled cash reconciliation process was not effective in all instances.

Effect
The lack of supervisory review led to a significant adjustment in the Government's financial statements. This resulted in a material misstatement of the financial statements going undetected.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-06 (continued)

Recommendation
The Government's management should be more closely involved in the monitoring and review of the pooled cash reconciliation process. Management should consider performing this process on a quarterly basis in order to detect and correct errors on at timely basis, while enhancing the Government's knowledge over its financial condition.

Management's Response
The Government of the Virgin Islands (GVI) concurs with this finding. The prior period error relates to auditor proposed reclassifications in connection with the elimination of funds for financial reporting. Because the adjustment is a one-time, nonrecurring adjustment, and does not relate to the systemic reconciliation of the pooled equity in treasury accounts (to underlying bank accounts), we believe this deficiency will be remediated in the next fiscal year.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-07

Topic
The Government's lack of control over its capital assets process led to significant adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such significant deficiency in internal controls is considered to be a material weakness.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
During our review of construction in progress accounts, we noted a significant number of projects which had been completed during fiscal year 2007, but had not been transferred to plant in service and, hence, had not been depreciated. In addition, we noted that the Government had not effectively implemented its capital assets ERP module, which led to a manual calculation of capital assets and depreciation.

In addition, management did not maintain appropriate documentation regarding its capital assets impairment review process.

Questioned Costs
Not applicable.

Underlying Cause
There is a lack of timely coordination between the Department of Finance, the Department of Property and Procurement, and the Department of Public Works. In addition, the delay of the implementation of the capital assets ERP module required that the capital assets process be a manual process, which makes the process prone to error.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-07 (continued)

Effect
The lack of supervisory review and coordination between the mentioned agencies led to significant adjustments in the Government's financial statements. This resulted in a material misstatement of the financial statements.

Recommendation
The Government should continue its implementation of its ERP capital asset module. A formal procedure should be established to perform a quarterly review the status of construction in progress accounts and capital assets that may require impairment.

Management's Response
The Government of the Virgin Islands (GVI) concurs with the auditors' findings and recommendations related to construction in progress and the use of the ERP Fixed Asset Module (FAM) to account for the capital assets of the GVI.

During fiscal year 2007, the Department of Finance (DOF) assumed responsibility for the proper stewardship of the GVI's capital assets, which required, but was not achieved, periodic coordination between DOF, the Department of Property and Procurement (P&P), the Department of Public Works (DPW) and the Public Finance Authority (PFA) to ensure that the construction in progress (CIP) accounts were routinely updated. However, to mitigate this circumstance in the future, the GVI, through P&P, began to use, in earnest, the ERP FAM in April 2008.

Since P&P is responsible for the ERP FAM, the GVI anticipates this condition to be improved upon in Fiscal Year 2008 and resolved in Fiscal Year 2009.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-08

Topic
The Government's lack of control over the accounts payable reconciliations process led to significant adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such significant deficiency in internal controls is considered to be a material weakness.

Category
Internal Control

Criteria
A fundamental element of a sound system of internal controls is an effective accounts payable reconciliations process. Such process is essential in enabling companies to prevent and detect errors on a timely basis. This effective process helps ensure that all accounts payable reconciliations are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
Lack of controls over the accounts payable ERP module and accounts payable reconciliations has made it difficult for the Government to establish its accounts payable subledger. Management establishes its accounts payable subledger through a manually intensive process. This resulted in significant adjustments to the financial statements.

Questioned Costs
Not applicable.

Underlying Cause
The Government's financial statements have grown in complexity. Additionally, supervisory review of the accounts payable reconciliation process was not effective in all instances.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-08 (continued)

Effect
The lack of supervisory review led to significant adjustments in the Government's financial statements. This resulted in a material misstatement of the financial statements.

Recommendation
The Government's management should be more closely involved in the monitoring and review of the financial statement close process. Management should consider performing this process on a quarterly basis in order to detect and correct errors on at timely basis, while enhancing the Government's knowledge over its financial condition. In addition, Management should consider establishing procedures to reduce manual efforts by utilizing its ERP Accounts Payable module more effectively.

Management's Response
GVI concurs with this finding. In fiscal year 2007, GVI implemented a new decentralized financial management system requiring the training of over 3,000 government employees in the entry of core financial data. GVI continues its training efforts to ensure that underlying accounts payable data, such as invoice dates, are properly reported and reviewed. In addition, the financial management system team is developing controls to ensure the reconciliation of general and subsidiary ledgers on a timely basis

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-09

Topic
The Government's lack of control over its liability estimation process for worker's compensation and medical malpractice claims led to an error in the financial statements, which could not be qualified by management. Due to the nature and magnitude of this control deficiency, such significant deficiency in internal controls is considered to be a material weakness.

Category
Internal Control

Criteria
A fundamental element of a sound system of internal controls is an effective liability estimation process. Such process is essential in enabling companies to prevent and detect errors on a timely basis. This effective process helps ensure that all liability estimation transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
The Government did not establish liabilities for worker's compensation and medical malpractice claims, which resulted in a disclaimer of opinion of the business-type activities and the aggregate remaining fund information.

Questioned Costs
Not applicable.

Underlying Cause
The Government's financial statements have grown in complexity. Additionally, a supervisory review of the liability estimation process for worker's compensation claims was in place for fiscal year 2007.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-09 (continued)

Effect
The Government was not able to quantify these liabilities, which resulted in a disclaimer in the audit opinion of the business-type activities and aggregate remaining fund information.

Recommendation
The Government's management should establish controls over the review its claims data process which will allow them to provide the data necessary in the estimation of these liabilities.

Management's Response
The Government of the Virgin Islands (GVI) concurs with the auditors' finding and recommendation related to establish liabilities for worker's compensation and medical malpractice claims.

The GVI engaged the services of an actuarial firm to establish liabilities for worker's compensation and medical malpractice claims. We anticipate a properly recorded liability that can be reviewed independently by the auditors, in the financial statements of the GVI as of September 30, 2008.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-10

Topic
The Government's lack of control over accrued compensated absences process led to errors in the financial statements, which could not be quantified by management. Due to the nature and magnitude of this control deficiency, such significant deficiency in internal controls is considered to be a material weakness.

Category
Internal Control

Criteria
A fundamental element of a sound system of internal controls is an effective accrued compensated absences process. Such process is essential in enabling the Government to prevent and detect errors on a timely basis. This effective process helps ensure that all accrued compensated absences transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
There are insufficient controls over the accrued compensated absences process to prevent and detect significant errors in the financial statements. The accrued compensated absences sub ledger contained significant errors, which were not quantifiable by Management, and hence led to a qualification in the audit opinion of the governmental activities.

Questioned Costs
Not applicable.

Underlying Cause
The Government's financial statements have grown in complexity. Additionally, supervisory review of the accrued compensated absences process was not effective in all instances.

Effect
This resulted in a qualification in the audit opinion of the governmental activities in financial statements.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-10 (continued)

Recommendation
The Government's management should be more closely involved in the monitoring and review of the compensated absences process. Management should consider performing this process on a quarterly basis in order to detect and correct errors on at timely basis, while enhancing the Government's knowledge over its financial condition.

Management's Response
The Government of the Virgin Islands (GVI) concurs with the auditors' finding and recommendation related to the insufficient controls over the accrued compensated absences process.

The primary supporting documentation used by DOF to activate a new employee's accrued leave balance within the existing "Hours Earned" module of the Financial Management System (FMS) is the Notice of Personnel Action (NOPA). Although the set-up of a new employee, from a payroll perspective, is performed by the Division of Personnel (DOP) from the information contained in a fully executed NOPA (i.e., "New Hire NOPA"), the "New Hire NOPA" is forwarded directly to the hiring department/agency. This document, which is critical to activating the "Hours Earned" module for the newly hired employee, is infrequently overlooked for submission to DOF by departments/agencies. When this occurs employees can encounter either "negative" balances, if annual or sick time is used and not activated in the "Hours Entry" module, or "zero" balances, if an employee has not used any annual or sick time and not activated in the "Hours Entry" module.

The Department of Finance (DOF) will pursue an aggressive plan to update and validate accrued leave balances that have been identified as either "negative" or "zero" balances by November 2009. This will require a coordinated effort between DOF and departments/agencies that carry employees with "negative" or "zero" balances. Moreover, departments/agencies will no longer be able to override the "Hours Earned" module and grant employees leave without activating their respective records. Moreover, the DOF will require all departments/agencies to validate "existing" accrued absences on a semi-annual basis to more closely monitor and review these balances in anticipation of the financial statement close process.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-11

Topic
Performance and review of the bank reconciliation process has not been timely.

Category
Internal Control

Criteria
Performance and review of bank reconciliations should be performed within a period of 30 to 45 days after month end.

Condition Found
During our audit, we noted that bank reconciliations were not being performed and reviewed within a reasonable period. Most bank reconciliations were completed, reviewed and approved after 365 days.

Questioned Costs
Not applicable.

Underlying Cause
The Government has numerous bank accounts and its process for performing bank reconciliations is, for the most part, performed manually.

Effect
The lack of timely performance and review of bank reconciliations had led to adjustments not being identified on a timely basis. This could also result in a misstatement due to error or fraud going undetected. In addition, this has prevented the Government from performing monthly closing procedures, which is necessary for timely financial reporting.

Recommendation
The Government should automate its bank reconciliation process and consolidate unnecessary bank accounts. This will allow for the Government's personnel to be more efficient and effective in detecting errors and provide the Government more timely and accurate financial information.

Part II – Financial Statements Findings Section (continued)

Finding Number: 07-11 (continued)

Management's Response
GVI concurs with the auditors' findings and recommendations.

As part of the ERP, an integral component in automating the bank reconciliation functions within the DOF's Treasury Division lay in the bank reconciliation application, which resides in the Treasury Management Module (TMM). The TMM was used to reconcile all GVI bank accounts as of September 30, 2007 and began in earnest as a monthly reconciliation tool throughout Fiscal Year 2008 and henceforth. While the TMM has been instrumental in improving the overall reconciliation process and the controls surrounding cash, it has revealed the necessity to reduce the amount of excess bank accounts utilized throughout the GVI. It is our expectation that many of these excess bank accounts will be closed during Fiscal Year 2010. Moreover, in maximizing the benefits of the TMM, the GVI will move towards increased efficiency and effectiveness through consolidation of existing bank accounts, while leveraging the full suite of available on-line financial tools (e.g., inter- and intra-bank ACH transactions) during Fiscal Year 2010.

Part II – Financial Statements Findings Section (continued)

Finding No. 07-12

Topic

Errors were identified in the Schedule of Expenditures of Federal Awards (SEFA)

Category
Internal Control

Criteria
Recipients of Federal awards are to maintain adequate controls over their books and records in order to prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards (OMB Circular A-133, Section .300(d)).

Condition Found
The Schedule of Expenditures of Federal Awards (SEFA) is to provide total Federal awards expended for each individual Federal program. Errors were identified in the preparation of the September 30, 2007 Schedule of Expenditures of Federal Awards.

As part of our compliance testing, items were identified that were not properly recorded in the September 30, 2007 Schedule of Expenditures of Federal Awards according to the definition of expenditures per OMB Circular A-133. The September 30, 2007 SEFA was not corrected. The September 30, 2007 SEFA reflected additional expenditures of $60,022 under amounts reported and requested for reimbursement. Differences identified between expenditures reported in the SEFA and actual expenditures per the accounting records were as follows:

CDFA #	Program	Expenditures per SEFA	Expenditures Reported	Difference
10.551, 10.561	Food Stamp Cluster	$ 226,129	$4,331,671	$(4,105,542)
10.555, 10.559	Child Nutrition Cluster	$5,982,755	$4,687,277	$ 1,295,478

Part II – Financial Statements Findings Section (continued)

Finding No. 07-12 (continued)

Condition Found (continued)

CDFA #	Program	Expenditures per SEFA	Expenditures Reported	Difference
10.557	Special Supplemental Nutrition Program for Women, Infants and Children	$4,696,724	$5,836,775	$(1,140,051)
17. 225	Unemployment Insurance	$9,725,357	$9,066,136	$ 659,2321
66.468	Capitalization Grants for Drinking Water State Revolving Fund	$1,009,481	$ 916,310	$ 93,171
66.605	Performance Partnership Grants	$2,444,695	$2,120,263	$ 324,432
93.563	Child Support Enforcement	$4,174,067	$2,845,363	$ 1,328,684
93.778	Medical Assistance Program (Medicaid-Title XIX)	$5,296,791	$3,710,261	$ 1,586,530

In addition, the Government could not compile the note to the SEFA related to pass-through awards to subrecipients.

Questioned Costs
Not applicable.

Underlying Cause
Inadequate internal controls over financial reporting resulted in errors in the preparation of the Schedule of Expenditures of Federal Awards. Lack of reconciliation between Federal grant expenditures recorded in the Government's records with the amounts accounted for in its accounting system.

Part II – Financial Statements Findings Section (continued)

Finding No. 07-12 (continued)

Effect
The September 30, 2007 SEFA was understated by the above amounts in the above programs.

Recommendation
The Government should implement additional procedures and internal controls to ensure its Schedule of Expenditures of Federal Awards is prepared properly to include all Federal expenditures applicable to the reporting period. The Government should ensure proper reconciliation between accounting system and Federal expenditures at program level is timely performed and discrepancies are investigated.

Management's Response
GVI concurs with the auditors' findings and recommendations.

The T-M ERP system has enabled the GVI to make significant improvements in the proper recording and accounting of transactions to permit the preparation of reliable financial statements and Federal reports; however, the reconciliation of these transactions to ensure compliance with laws, regulations and other compliance requirements will further strengthen GVI's resolve to improve its internal and external financial reporting requirements through additional effort and oversight by department/agencies, OMB and DOF. In an effort to accomplish this objective, DOF has endeavored to provide guidance through use of the standard reporting tool resident within the T-M ERP: the Flexible Period Report.

The Flexible Period Report should be reviewed, at a minimum, on a monthly basis for completeness prior to the DOF's established cut-off dates for closing monthly periods. This dynamic reporting tool, which emanates from the T-M ERP system, along with the policies and procedures supporting them, will be re-communicated to agencies/departments as the "official" set of records/reports that should be leveraged in the preparation of external Federal reports. These Federal reports will then be reviewed at departmental/agency level by the appropriate Program Manager responsible for external Federal reporting leveraging the "official" set of records/reports from the T-M ERP system as the supporting documentation. Once this review is complete, it will be forwarded to the Department/Agency Certifying Officer and Agency Head for final review and dissemination to the respective external Federal reporting entities.

Part II – Financial Statements Findings Section (continued)

Finding No. 07-12 (continued)

Management's Response
In order to achieve success in this regard, through DOF's leadership team, a strong focus on reconciliation and review of financial transactions affecting the G/L using a spreadsheet based reconciliation tool that will be embraced, enforced and consistently followed to eliminate this deficiency.

Government of the United States Virgin Islands

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2007

Part III – Federal Awards Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by OMB Circular A-133, Section .510(a) (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs), as well as any abuse findings involving Federal awards that are material to a major program.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Agriculture

Food Stamps Cluster
CFDA Nos. 10.551 and 10.561

The objective of the Food Stamp Program is to help low-income households buy the food they need for good health. Total Food Stamps Cluster Federal expenditures for the fiscal year ended September 30, 2007 amounted to $21,254,306.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-13

Program
U.S. Department of Agriculture – Food Stamps Cluster - CFDA Nos. 10.551 and 10.561

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
In accordance with 31 CFR 205, each recipient shall request Federal funds based on actual expenditures incurred during the period.

Condition Found
During the performance of our testing of the Financial Status Report (SF-269) for all quarters filed by the Food Stamps Program, we noticed that the Federal financial reports did not agree with supporting records for monetary items as follows:

Federal accounts only **Supporting records – VIDHS internal accounts:**	**Indirect**	**Total**
F5609U-4727-110	$123,869	$ 381,004
F5609U-4724-109	209,788	901,641
F5609U-4773-127	806,845	2,288,856
F5609U-4728-105	25,390	92,714
	Total	**4,830,107**
SF-269 (Federal Outlays, Line 10(k) all quarters)		**4,331,671**
	Difference	**$ 498,436**

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-13 (continued)

Condition Found (continued)

Local and Federal accounts Supporting records – VIDHS internal accounts:	**Indirect**	**Total**
F5609U-4727-110	$123,869	$ 381,004
F5609U-4724-109	209,788	901,641
F5609U-4773-127	806,845	2,288,856
F5609U-4728-105	25,390	92,714
L56098-4727-110		305,488
L56098-4724-109		62,460
L56098-4773-127		2,725,927
GE 4707-4771-000		123,326
GE 4707-4728-000		247,729
		8,295,037
SF-269 (Total Outlays, Line 10(e) all quarters)		**7,791,451**
	Difference	**$ 503,586**

Questioned Costs
None. The Federal share of amounts expended by the Program were in excess of amounts requested for reimbursements.

Underlying Cause
Current internal controls in the Food Stamps Program are not operating effectively with regard to the preparation, reconciliation with the accounting records and review of the Federal reports.

Effect
The Program may have reported Federal expenditures to the U.S. Department of Agriculture without proper supporting documentation. This may lead to the reporting of unallowable Federal expenditures.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-13 (continued)

Recommendation
The V.I. Department of Human Services and Food Stamp Program should establish procedures to ensure Federal financial reports are properly reviewed and reconciled to the accounting records by trained supervisory personnel.

Management's Response
We concur with the finding and will consider the recommendations in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-14

Program
U.S. Department of Agriculture – Food Stamps Cluster - CFDA Nos. 10.551 and 10.561

Category
Compliance

Compliance Requirement
Special Tests and Provisions – ADP systems for Food Stamps (Eligibility)

Criteria
Pursuant to 7 CFR 3016.42(b), supporting records must be kept for three years from the day the grantee submits the awarding agency its expenditure reports.

Condition Found
During our testing of eligibility for individuals, we were unable to determine the eligibility of 1 out of 50 selected individual participants due to the following conditions explained in the table below:

No.	Participant ID	Comment
3	2005575	**A**

Comments:

A: No Utilities documentation was provided for fiscal year 2007.

Questioned Costs
Could not be determined.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-14 (continued)

Cause
Although current internal controls provide that eligibility documentation should be maintained in the participant's records, the Program was unable to locate the supporting documents of the participant's files as detailed above.

Effect
The Program may have awarded Federal funds to an individual or family which is not eligible to participate in the Program.

Recommendation
The V.I. Food Stamps Program should implement procedures to ensure that all participant files are properly maintained and available and support for participant eligibility in the Program is maintained.

Management's Response
We concur with the finding and will consider the recommendations in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-15

Program
U.S. Department of Agriculture – Food Stamps Cluster - CFDA Nos. 10.551 and 10.561

Category
Internal Control / Compliance

Compliance Requirement
Matching, Level of Effort and Earmarking

Criteria
In accordance with 7 CFR 277.4(d), all contributions shall be allowable as part of the state agency's share of programs costs when such contributions:

1. Are verifiable,
2. are not contributed for another Federally-assisted program,
3. are necessary and reasonable for accomplishment of project objectives,
4. are charges that would be allowed under this part,
5. are not paid by Federal government, and
6. are in the approved budget.

Condition Found
The Program could not provide evidence supporting compliance with the matching requirement, such as calculations, allocations, etc.

Based on total outlays reported by the Program in its SF-269 of $7,791,451 and the 50% matching rate established for the Program, state share (net of indirect cost, as such are covered in our Finding 07-62) should have been $3,185,124 rather than the $2,996,211 claimed.

Questioned Costs
$188,913

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-15 (continued)

Underlying Cause
Current internal controls for the Food Stamp Program are not operating effectively with regard to providing for the proper maintenance of accounting records.

Effect
The Program could have received reimbursement for unallowable or unsupported costs, or might be in noncompliance with matching requirements which could result in unallowed expenditures.

Recommendation
The V.I. Food Stamps Program should implement procedures to maintain supporting documentation to evidence its compliance with matching requirements.

Management's Response
We concur with the finding and will consider the recommendations in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Agriculture

Child Nutrition Cluster
(CFDA Nos. 10.555 and 10.559)

The objectives of the Child Nutrition Cluster programs are to: (1) assist States in administering food services that provide healthful, nutritious meals to eligible children in public and non-profit private schools, residential child care institutions, and summer recreation programs; and (2) encourage the domestic consumption of nutritious agricultural commodities. Total Child Nutrition Cluster Federal expenditures for the fiscal year ended September 30, 2007 amounted to $5,982,755.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-16

Program
U.S. Department of Agriculture – Child Nutrition Cluster - CFDA No. 10.555/10.559

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
In accordance with 7 CFR 210.5, each state agency recipient of funds shall limit requests for funds to such times and amounts as will permit prompt payment of claims or authorized advances. Also, each state agency shall maintain records as necessary to support the reimbursement payment made to school food authorities and the report submitted to the Food and Nutrition Service of the U.S. Department of Agriculture (FNS).

Condition Found
During our testing of the total cash drawn during the fiscal year 2007, we noticed the following discrepancy between amounts drawn/reimbursed under the Program and reported Program expenditures:

Total cash draws per ASAP	$ 4,638,512
Total expenditures per SF-269	4,687,277
Excess of expenditures reported over cash draws	$ 39,764

The Government was not able to reconcile the difference between total cash drawn and total expenditures reported in the SF-269.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-16 ***(continued)***

Questioned Costs
None. The Program drew less money than the amount reported as Federal expenditures.

Underlying Cause
Current internal controls in the V.I. Department of Education (DOE) are not operating effectively with regards to reconciling Federal expenditures reported with cash drawn/reimbursements received.

Effect
The Government may have drawn less Federal funds than it was entitled to. Alternatively, the Government may receive funding for unallowable costs if the cash draws were higher than actual expenditures/meals served. The Program may be reporting unallowable costs as Federal expenditures. This may also lead to incorrect financial information presented in reports submitted to the Federal government.

Recommendation
The V.I. Department of Education should establish procedures to ensure Federal financial reports are properly reviewed and reconciled by trained supervisory personnel.

Management's Response
VIDE concurs with this finding. The State Office will verify that the draw reconciles to the expenditure and that for all expenditures, once a check number has been obtained and payment is made, a draw is made in a timely manner.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Agriculture

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) CFDA No. 10.557

The objective of the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) is to provide supplemental nutritious foods, nutrition education, and referrals to health care for low-income persons during critical periods of growth and development. Such persons include pregnant women, breast-feeding women up to one year postpartum, non-breast-feeding women up to six months postpartum, infants (persons under one year of age), and children under age five determined to be at nutritional risk. Intervention during the prenatal period improves fetal development and reduces the incidence of low birth weight, short gestation, and anemia.

Total WIC Federal expenditures for the fiscal year ended September 30, 2007 amounted to $4,698,497.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 07-17

Program
U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) - CFDA No. 10.557

Category
Internal Control / Compliance

Compliance Requirement
Special Tests and Provisions: Compliance Investigation of High Risk Vendors.

Criteria
Pursuant to 7 CFR 246.12(j)(4)(i) through (iii), a State agency operating a retail food delivery system must conduct compliance investigations, which consist of inventory audits and/or compliance buys, on a minimum of 5 percent of the vendors authorized as of October 1 of each year. A State agency must conduct compliance investigations on its high-risk vendors up to the 5 percent minimum. High-risk vendors are identified at least once annually using criteria developed by FNS, and/or other statistically based criteria developed by the State agency and approved by FNS.

Condition Found
Although the Program has no designated high-risk vendors, they did not perform the required compliance investigation on authorized vendors during Fiscal Year 2007. One annual required investigation for a total population of 14 authorized vendors should have been performed.

Questioned Costs
Not applicable.

Underlying Cause
Lack of implemented controls to ensure required investigations are performed or staffed appropriately.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 07-17 (continued)

Effect
The lack of performance of the required investigations could lead to undetected vendor noncompliance with Program requirements and high-risk designation and thus reimbursement for payment to potentially unauthorized vendors.

Recommendation
Appropriate controls need to be put in place to ensure the required vendor investigations are performed during the year. A checklist of program requirements should be developed to ensure all required Program requirements are performed.

Management's Response
This was also a finding in fiscal year 2006; the finding was corrected in fiscal year 2008. As we responded at that time: "During fiscal year 2008 vendor training, compliance buys and monitoring activities were conducted."

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 07-18

Program
U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) - CFDA No. 10.557

Category
Internal Control / Compliance

Compliance Requirement
Equipment and Real Property Management

Criteria
OMB Circular A-102 requires that equipment be used in the Program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Condition Found
Although the Program keeps an inventory listing of equipment purchased with Federal funds, the Program has not registered its equipment with the V.I. Department of Property and Procurement. Therefore, we were unable to observe V.I. Department of Property and Procurement official tags to determine appropriate equipment safeguards and accountability.

In addition, no official records certifying the performance of a physical inventory of property within the past two years was provided.

Questioned Costs
Could not be determined.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 07-18 (continued)

Underlying Cause
The V.I. Department of Health did not follow procedures in place to maintain appropriate records for acquisition and control of property acquired with Federal fund and/or lack of knowledge of Federal requirements regarding property acquired with Federal funds.

Effect
Inappropriate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with Federal regulations, including return of funding to the U.S. Department of Agriculture.

Recommendation
The V.I. Department of Health should perform a physical inventory of equipment purchased with Federal funds and reconcile with V.I. Property and Procurement Office records.

Management's Response
Our current inventory will be updated to include items such as chairs, etc. (no longer regarded as equipment), and will be tagged for accountability of Federal funds. This will be submitted to the Department of Property and Procurement for recording.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 07-19

Program
U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) - CFDA No. 10.557

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with the executed Cash Management Improvement Act agreement (CMIA) for the period of October 1, 2005 to September 30, 2007, under the U.S. Department of Treasury regulations at 31 CFR part 205, the Government requires the use of an "average clearance" funding technique for vendor and payroll related costs. Under the "average clearance" funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government's bank account on the fourth day following the release of funds for vendor disbursements and on the day in which payroll checks are released for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 07-19 (continued)

Condition Found

We tested 1 out of the 12 drawdowns of Administrative funds totaling $1,822,583 performed during fiscal year 2007. The drawdown tested, in the amount of $83,389, was not in compliance with the clearance funding patterns stipulated in the CMIA Agreement according to mail logs maintained by the Department of Finance as follows:

Drawdown Sample Number	Month	Required Drawdown Amount	Date Checks Released	Deposit Date	Date deposits should have been requested for	Excess Days
1	Sep-07	$83,389	7/2/07-8/31/07	9/21/2007	7/6/2007-9/6/2007	17-56

The noncompliance relates to this drawdown being requested after the specified date as per CMIA Agreement. While this circumstance did not lead to drawing funds in advance of the CMIA established timing, it is evidence of lack of sufficient or effective internal controls over cash management requirements.

In addition, we noted that there were only 5 cash draws related to payroll expenses, when there are 26 pay periods throughout the fiscal year. As per the CMIA agreement, cash draws related to payroll should be made upon every payday with an average clearance pattern of 0 (zero) days. Thus, we noted that the Program accumulated approximately 5 pay periods per cash draw request, instead of requesting the cash for every pay period. While this situation also did not lead to drawing funds in advance of CMIA established timing, it is evidence of lack of sufficient or effective internal controls over cash management requirements.

Questioned Costs

Not applicable.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number 07-19 (continued)

Underlying Cause
V.I. WIC Program policies (based on Dept. of Finance policies) and procedures are not designed and operating effectively to ensure that all drawdowns are being reviewed to guarantee that they are made within the guidelines established by the CMIA Agreement.

Effect
This control deficiency could adversely affect the Government's ability to comply with the cash management requirement of this Federal Program or, as in this case, adversely impact cash flow or loss of potential interest earnings due to not requesting reimbursements timely.

Recommendation
The V.I. WIC Program and the Department of Finance should design and implement controls to ensure compliance with the CMIA Agreement. Management should consider periodic monitoring, verification, and reporting of the Department of Finance's progress in implementing the controls.

Management's Response
In fiscal year 2009, the Department of Health's Office of Federal Grants Management has put a process in place to ensure that Federal funds are drawn on the day before payday to ensure that cash is in the bank to cover payroll. We will make every attempt to ensure that cash is drawn in a timely manner to cover other costs.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-20

Program
U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) - CFDA No. 10.557

Category
Internal Control / Compliance

Compliance Requirement
Eligibility

Criteria
Pursuant to 7 CFR Sections 246.7(c), (d), (e), (g), applicants for WIC Program benefits are screened at WIC clinic sites to determine their WIC eligibility. To be certified eligible, they must meet the following eligibility criteria: Categorical, Identity and Residency, Income, and Nutritional Risk.

Condition Found
During our testing of eligibility for individuals, the Government was unable to provide support for participant eligibility for 29 out of 65 selected individual participants due to the following conditions:

No.	Participant ID	Comment
1	300001340	**A**
2	100026164	**B**
3	100021998	**B**
4	300002232	**A**
5	1000251341	**A**
6	100028333	**B**
7	200028833	**A**
8	300000100	**A**
9	100025022	**A**

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-20 (continued)

Condition Found (continued)

No.	Participant ID	Comment
10	300002468	**A**
11	100026889	**B**
12	300003051	**A**
13	200028261	**C**
14	300002225	**C**
15	100027620	**B**
16	100026068	**B**
17	300001036	**B**
18	100025961	**B**
19	100026942	**B**
20	300001362	**B**
21	200025735	**B**
22	200027366	**B**
23	300002037	**B**
24	100027003	**B**
25	100024867	**B**
26	300001548	**B**
27	100024543	**B**
28	200023644	**B**
29	300003113	**B**

A: The participant file was not provided, as well as other documentation supporting the eligibility criteria: Categorical, Identity and Residency, Income, and Nutritional Risk.
B: We could not verify the Agreement/Income form.
C: We could not verify the hematological test was performed; therefore, not supporting the Nutritional Risk criteria.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-20 (continued)

Questioned Costs
Could not be determined.

Underlying Cause
Although current internal controls provide that eligibility documentation should be maintained in the participant's records, the department responsible for the Program was unable to locate the supporting documents of the participant's files selected.

Effect
The Program may have provided benefits to an individual who is not eligible to participate in the Program.

Recommendation
The V.I. WIC Program should implement procedures to ensure that all participant files are properly maintained and available.

Management's Response
We concur with the finding and will consider the recommendations in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-21

Program
U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) - CFDA No. 10.557

Category
Internal Control

Compliance Requirement
Special Tests and Provisions: Food Instrument Disposition

Criteria
In accordance to 7 CFR section 246.12(q). Prior to March 27, 2007, a State agency was required to account for the disposition of all FIs within 150 days of the FI's first valid date for participant use. That time frame was reduced to 120 days for all FIs issued on or after March 27, 2007. The State agency must identify all FIs as either issued or voided; and identify issued FIs as either redeemed or unredeemed. Redeemed FIs must be identified as one of the following: (1) validly issued, (2) lost or stolen, (3) expired, (4) duplicate, or (5) not matching valid enrollment and issuance records. State agencies generally do this by analyzing computer reports that provide detailed issuance and redemption information on each FI.

Also, the State agency should use the following steps in performing the non-reconciliation rate calculation: (1) determine total FI redeemed, (2) determine total redeemed FIs initially identified as unreconciled (listed as redeemed with no record of issuance on exception report), (3) determine total redeemed FIs finally identified as unreconciled (after follow-up with local agencies/clinics), (4) calculate unreconciled rate (#3 divided by #1), (5) calculate total value of FIs redeemed, and (6) calculate total value of FIs finally identified as unreconciled.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-21 (continued)

Condition Found
During our testing of FI disposition, the state agency could not provide us with documentation supporting that the Program timely identified all FI as either issued or voided and identify issued FI as either redeemed or unredeemed. While the reports were provided for us to test, they were generated at the time we were performing our audit procedures, which evidences that the related internal control was not working effectively during fiscal year 2007.

Questioned Costs
Not applicable.

Underlying Cause
Although the WIC on the Web (WoW) system provides the required information (reports) for determining the classification of the Food Instruments, for Fiscal Year 2007 the required FI reconciliation and accounting was not performed.

Effect
The state disposition of Food Instruments was unaccounted for. This could result in FI's being misappropriated or lost.

Recommendation
The V.I. Department of Health should develop a process for accounting for and reconciling all FI issued to comply with program requirements.

Management's Response
We concur with the finding and will consider the recommendation in our Corrective Action Plan.

The WoW system was implemented in fiscal year 2007, and we continue to familiarize ourselves with the various capabilities of this system. This is an area that became familiar during the fiscal year 2007 audit. However, the reports showing the disposition of all checks issued were created on June 30, 2009.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-22

Program
U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) - CFDA No. 10.557

Category
Internal Control / Compliance

Compliance Requirement
Period of Availability of Federal Funds

Criteria
Pursuant to 7 CFR 3016.23(a), where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

Condition Found
During our testing, we noted 2 items that were charged to expense outside the period of availability. Our sample consisted of 25 items and $29,195.

P.O.	Vendor ID	Invoice #	Date Charged	Grant ID	Period of Availability	Voucher Amount
27019510	8720	17623	6/21/07	F7070	10/1/2003 – 9/30/2004	$ 65
27020779	21494	330	8/16/07	F6070	10/1/2005 – 9/30/2006	191
					Total	$256

Questioned Costs
$256

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-22 (continued)

Underlying Cause
Current internal controls in the V.I. Department of Health (DOH) are not operating effectively with regard to reviewing and approving invoices and amounts reported as expenditure to ensure they are charged within the period of availability.

Effect
As a result, funds may be expended for unallowable costs, requiring the DOH to reimburse the Federal government.

Recommendation
The V.I. Department of Health should implement a process to ensure all expenditures are incurred during the period of availability and that internal controls are in place to prevent or detect expenditures being charged outside of the period of availability.

Management's Response
We concur with the finding as the costs were allowable, but charged to the wrong fiscal year.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Defense
The Office of the Adjutant General

National Guard Military Operations and Maintenance (O&M) Projects
CFDA No. 12.401

The National Guard Bureau (NGB) enters into cooperative agreements (CA) for Army National Guard (ARNG) Facilities Programs (EP) and Air National Guard (ANG) Facility Operations & Maintenance Activities (FOMA) with States to provide Federal support for services provided by the State Military Departments for authorized facilities for leases, facilities operations, and sustainment, restoration, an modernization, including operations and maintenance (O&M) and minor construction costs (NGR 5-1/ANGI 63-101).

Total National Guard Military Operations and Maintenance (O&M) Projects Federal expenditures for the fiscal year ended September 30, 2007, amounted to $3,396,599.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-23

Program
U.S. Department of Defense – The Office of the Adjutant - National Guard Military Operations and Maintenance (O&M) Projects - CFDA No. 12.401

Category
Internal Control / Compliance

Compliance Requirement
Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Criteria
According to OMB Circular A-87, Attachment B, item #8(h)(3), support for salaries and wages, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Condition Found
The Office of Adjutant General (OAG) was unable to provide semi-annual certifications of time charged to this award or other time records for employees paid with Federal Award dollars for the following employees selected in our payroll cost testing. We selected 4 employees covering 26 transactions representing $70,257 out of a population of $275,608.

#	Employee #	Total Payroll Cost Tested
1	50810	$23,232
2	56578	16,219
3	78009	18,832
4	95699	11,974
		$70,257

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-23 (continued)

Questioned Costs
$70,257

Underlying Cause
The OAG does not have a process in place to ensure that either time records are prepared or semi-annual certifications are prepared to support payroll charges to grant awards.

Effect
The lack of evidence supporting review and approval of employee time may result in the inappropriate allocation of personnel charges to Federal grants, leading to reimbursement being made for unallowable costs.

Recommendation
The OAG needs to establish internal control procedures requiring either detailed time records or certification to ensure that they are in compliance with OMB Circular A-87, Attachment B, Item #8(h)(3).

Management's Response
We concur with the finding and will consider the recommendations in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-24

Program
U.S. Department of Defense – The Office of the Adjutant - National Guard Military Operations and Maintenance (O&M) Projects - CFDA No. 12.401

Category
Internal Control / Compliance

Compliance Requirement
Equipment and Real Property Management

Criteria
Pursuant to 32 CFR Section 33.32(d) (1) and (2), property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property; and property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Condition Found
During our audit procedures, the OAG was unable to provide a record of property acquired with Federal funds. Additionally, there was no evidence of OAG performing a physical inventory of property within the past two years.

Questioned Costs
Could not be determined.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-24 (continued)

Underlying Cause
The OAG does not appear to have a process in place to maintain appropriate records for acquisition and control of property acquired with Federal funds, including performing physical inventories.

Effect
Inappropriate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with Federal regulations resulting in return of Federal awards received.

Recommendation
The OAG should perform a physical inventory of equipment purchased with Federal funds and include unrecorded assets with V.I. Property and Procurement Office.

Management's Response
The OAG agrees with the finding. We will comply and put together a record of all equipment purchased with Federal funds according to Federal regulations.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Housing and Urban Development (HUD)

Community Development Block Grant/Entitlement Program
CFDA No. 14.218

The primary objective of the Community Development Block Grant (CDBG) Entitlement Program (large cities and urban counties) (24 CFR part 570 subpart D) and HUD-Administered Small Cities Programs (24 CFR part 570 subpart F) is to develop viable urban communities by providing decent housing, a suitable living environment, and expanded economic opportunities, principally for persons of low and moderate income. This objective is to be achieved in two ways. First, a grantee can only use funds to assist eligible activities that meet one of three national objectives of the Program: benefit low- and moderate-income persons, aid in the prevention or elimination of slums and blight, or meet community development needs having a particular urgency. Second, the grantee must spend at least 70 percent of its funds, over a period of up to three years as specified by the grantee in its certification, for activities that address the national objective of benefiting low- and moderate-income persons (24 CFR sections 570.200, 570.420, and 570-430).

Total Community Development Block Grant/Entitlement Program's Federal expenditures for the fiscal year ended September 30, 2007, amounted to $2,858,595.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-25

Program
U.S. Department of Housing and Urban Development (HUD) − Community Development Block Grant/Entitlement Program - CFDA No. 14.218

Category
Internal Control / Compliance

Compliance Requirement
Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Criteria
Under OMB Circular A-87, expenditures charged to Federal programs must be adequately supported and allocable to the Federal program to be considered allowable costs under the Federal programs.

According to OMB Circular A-87, Attachment B, item #8(h)(3), support for salaries and wages, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that Program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Condition Found
We selected 25 payroll transactions totaling $42,140 for review out of $280,481. For nonpersonnel expenditures, we selected 25 transactions from a total of $3,799,926.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-25 (continued)

Condition Found (continued)
For each of the 25 payroll transactions selected for testing, the Program was unable to provide the personnel action documents and time records or the semi annual personnel certification that support payroll charges to the grant for the following transactions:

Employee #	Paydate	Pay Period Ending	Hours Charged	Gross Pay Per Pay Register
40064	10/26/2006	10/14/2006	80	$2,500
78412	11/22/2006	11/11/2006	80	1,153
38599	12/7/2006	11/25/2006	80	1,731
53542	12/21/2006	12/9/2006	80	1,555
56223	1/4/2007	12/23/2006	80	1,642
47385	1/18/2007	1/6/2007	80	1,846
70117	2/1/2007	1/20/2007	80	1,881
38599	2/15/2007	2/3/2007	80	1,731
40064	3/1/2007	2/17/2007	80	2,500
78412	3/15/2007	3/3/2007	80	1,154
56223	3/29/2007	3/17/2007	80	1,724
53542	4/12/2007	3/31/2007	80	1,634
96114	4/25/2007	4/14/2007	80	1,846
70117	5/10/2007	4/28/2007	80	1,846
78412	5/24/2007	5/12/2007	80	1,154
40064	6/7/2007	5/26/2007	80	2,500
67627	6/21/2007	6/9/2007	57.6	969

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-25 (continued)

Condition Found (continued)

Employee #	Paydate	Pay Period Ending	Hours Charged	Gross Pay Per Pay Register
70117	7/5/2007	6/23/2007	80	1,846
67627	7/19/2007	7/7/2007	60	1,077
96114	8/2/2007	7/21/2007	80	1,846
53542	8/16/2007	8/4/2007	80	1,634
56223	8/30/2007	8/18/2007	80	1,724
56223	9/13/2007	9/1/2007	80	1,724
67627	9/27/2007	9/15/2007	64	1,077
96114	10/11/2007	9/29/2007	80	1,846
			Total	$42,140

In addition, EY selected 25 non-payroll transactions for Activities Allowed or Unallowed and Allowable Costs/Cost Principles testing. Out of the 25 items selected, there was one transaction of $1,500 (check# 9187517) for which the Program could not provide us with documentation that would support that 10 airline tickets, purchased with CDBG funding, related to travels in connection with the CDBG functions, even though the Program provided invoice for the purchase.

We selected 25 payroll transactions totaling $42,140 for review out of $280,481. For nonpersonnel expenditures, we selected 25 transactions totaling $320,128 for review from a total of $3,799,926.

Questioned Costs
$43,640 (including $1,500 non-payroll)

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-25 (continued)

Underlying Cause
The Program did not have a process in place to adequately support expenditures made with Federal grant funds.

Effect
Payroll and non-payroll expenditures not adequately supported may be unallowable or disallowed by the Federal granting agency.

Recommendation
We recommend that the Program improves its processes and procedures over the retention of records. These records should be properly maintained and safeguarded and be available for review for a minimum period of three years. In addition, controls should be put in place to ensure that only expenditures allowable are paid with CDBG funds. For payroll costs, time records or certifications should be required and maintained.

Management’s Response
We concur with the finding and will consider the recommendations in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-26

Program
U.S. Department of Housing and Urban Development (HUD) − Community Development Block Grant/Entitlement Program - CFDA No. 14.218

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
Pursuant to 31 CFR 205, Subpart B-Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement, a state must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal program agency must limit a funds transfer to a state to the minimum amounts needed by the state and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a state's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Condition Found
The Program did not have a process in place over cash drawdown procedures in fiscal year 2007 for the CDBG grants to ensure that the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes was minimized.

We selected 17 out of 161 cash drawdowns throughout the fiscal year. These cash draws represented $415,445 out of a total of $4,080,446.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-26 (continued)

Condition Found (continued)
During our review of the CDBG cash drawdowns, we noted the following deficiencies:

- Out of 17 cash drawdowns selected for review, the Program could not provide adequate support for the following four items:

Voucher No.	Federal Account	Amount Requested	Date Requested
1445306	896	$ 923	8/28/2007
1321718	627	6,328	10/10/2006
1321718	760	2,286	10/10/2006
1432127	931	9,453	7/20/2007
		$18,990	

- For a second selection of 4 drawdowns out of a sample of 13 reviewed, we noted an extended period of time between the expenditure claimed and the drawdown date for the following transactions:

Voucher No.	Total Amount Requested	Date Requested	Payment Reference	Expenditure Dates
1392359	$26,038	4/3/2007	3045	1/23/2007
1392749	200	4/3/2007	6482	1/7/2007
1432173	37,881	7/20/2007	5450	6/18/2007
1392336	20,000	4/3/2007		1/23/2007
	$84,119			

Questioned Costs
For unsupported cash drawdowns, known questioned costs have been determined to be $18,990.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-26 (continued)

Underlying Cause
The Program did not have adequate procedures in place over cash drawdowns/reimbursement requests.

Effect
Unsupported cash drawdowns/reimbursements could result in reimbursement for unallowable costs. Reimbursements requested a significant amount of time after the incurrence and payment of the cost could adversely impact cash flow and lost interest income.

Recommendation
The Program should implement procedures to ensure timely request of reimbursement for costs incurred and paid. The Program should also strengthen internal controls and review document retention system procedures to ensure that drawdown requests are adequately supported.

Management's Response
We concur with the finding and will consider the recommendations in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-27

Program
U.S. Department of Housing and Urban Development (HUD) − Community Development Block Grant/Entitlement Program - CFDA No. 14.218

Category
Internal Control / Compliance

Compliance Requirement
Special Tests and Provisions – Required Certifications and HUD Approvals, Environmental Reviews and Rehabilitation

Criteria
24 CFR 58.1 requires that HUD approve requests for release of funds prior to the funds being obligated or expended. 24 CFR 570.604 requires that projects must have an environmental review and certification unless specifically exempted by the regulations. 24 CFR 570.506 requires that the recipient assure that rehabilitation work is properly completed.

Condition Found
The Program could not provide us with the HUD approved request for release of funds
The Program could not provide us with the HUD approved request for release of funds forms or all of the environmental review and certifications and documentation of rehabilitation work for the following requested projects totaling $161,898:

#	Year	PID	Project Name	Act#	NatObj	Status	Funded	Cash Drawn
1	2003	38	WOMEN'S COALITION FACILITY REHABILITATION	687	LMC	UNDERWAY	$ 32,941	$ 32,941
2	2004	20	CANEGATA RECREATION COMPLEX OUTFITTING	764	LMC	COMPLETED 08-12-08	40,000	–
3	2004	27	CHILDREN'S CENTER RENOVATION	768	LMC	COMPLETED 10-10-07	11,143	11,143
4	2004	28	DOMESTIC VIOLENCE SHELTER RENOVATION	769	LMC	COMPLETED 10-10-07	17,184	17,184
5	2004	32	TIMES SQUARE REHABILITATIOJN	773	LMC	COMPLETED 08-07-08	100,630	100,630
								161,898

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-27 (continued)

Questioned Costs
Not applicable.

Underlying Cause
The Program does not have a process in place for determining compliance requirements and monitoring of those requirements.

Effect
The Program is in noncompliance with these requirements, which may lead to disallowance of funds by the Federal awarding agency.

Recommendation
Management should develop policies regarding oversight and monitoring of the CDBG grant to ensure compliance with grant agreement. A checklist of specific grant requirements requiring sign-off by a preparer and reviewer would facilitate this process.

Management's Response
We concur with the finding and will consider the recommendations in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-28

Program
U.S. Department of Housing and Urban Development (HUD) − Community Development Block Grant/Entitlement Program - CFDA No. 14.218

Category
Internal Control / Compliance

Compliance Requirement
Subrecipient Monitoring

Criteria
24 CFR Section 570.503 requires subrecipients of CDBG funds to comply with all Program requirements except for recipient environmental and review responsibilities. 24 CFR Section 24 CFR section 570.200 requires that the activities using these funds fall under one of three national objectives which includes benefiting low and moderate income persons.

Condition Found
The Program did not maintain evidence supporting that subrecipient monitoring procedures were being performed as outlined in the grant requirements. Consequently, because of the inadequacies in the subrecipient monitoring process, the requirement that Program funds benefit a population of at least 51% low to moderate income (LMI) persons was not determined in noncompliance with both 24 CFR 570.200 and 570.503.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-28 (continued)

Condition Found (continued)
Of a sample of 25 cash disbursements tested totaling $320,128 tested for allowable costs, seven were for public service activities and the documentation of the meeting of the 51% LMI requirement was not provided by the Program. The universe of cash disbursements totaled $3,799,926.

PO Number	Subrecipient	Amount
27031567	St Andrews Episcopal Church	$ 8,983
N/A	Estate Grove After School Program	20,000
27003274	The Garden School	200
27021577	Brighter Writers Summer Camp	10,000
27020223	Wesley Methodist Church	4,961
27034641	Bovoni Weed and Seed	8,863
		$ 53,007

Questioned Costs
$53,007

Underlying Cause
The Program does not have an adequate system in place for monitoring subrecipient compliance.

Effect
The Program is in noncompliance with the above noted Federal regulations, which might lead to costs being disallowed by the Federal granting agency.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-28 (continued)

Recommendation
The Program should adopt procedures that require documentation for meeting the at least 51% LMI requirement and all other subrecipient monitoring activities.

Management's Response
We concur with the finding and will consider the recommendations in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-29

Program
U.S. Department of Housing and Urban Development (HUD) − Community Development Block Grant/Entitlement Program - CFDA No. 14.218

Category
Internal Control / Compliance

Compliance Requirement
Matching, Level of Effort, Earmarking and Period of Availability of Federal Funds

Criteria
According to 24 CFR 570, not less than 70 percent of the CDBG funds must be used over a period of up to three years, as specified by the grantee in its certification, for activities that benefit low- and moderate-income persons. In determining low- and moderate-income benefits, the criteria set forth in 24 CFR sections 570.200(a)(3) and 570.208(a) are used in the Entitlement Program. The criteria set forth in 24 CFR sections 570.420(e) and 570.430(e) are used in the HUD-Administered Small Cities Program.

Not more than 20 percent of the total CDBG grant, plus 20 percent of Program income received during a Program year, may be obligated during that year for activities that qualify as planning and administration pursuant to 24 CFR Sections 570.205 and 570.206 (24 CFR Section 570.200(g)).

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-29 (continued)

Criteria (continued)
The amount of CDBG funds obligated during the Program year for public services must not exceed 15 percent of the grant amount received for that year plus 15 percent of the Program income it received during the preceding Program year, except that a nonfederal entity that obligated more CDBG funds for public services than 15 percent of its grant funded from Federal fiscal year 1982 or 1983 appropriations (excluding Program income and any assistance received pursuant to Public Law 98-8) may obligate more CDBG funds than 15 percent as long as the amount obligated in any Program year does not exceed 15 percent of the Program income it received during the preceding Program year plus the percentage or amount obligated in Federal fiscal year 1982 or 1983, whichever method of calculation yields the higher amount (24 CFR section 570.201(e)). In the HUD-Administered Small Cities Program in New York, the 15 percent public services cap applies to each year's allocation of non-entitlement funds for the State (24 CFR section 570.421).

Condition Found
A large number of CDBG subgrants and projects did not use 70% of the funds awarded within 3 years. We also noted that the Program was disbursing funds from grant years as far back as 1990 in fiscal year 2007.

Also, per analysis of the CDBG financial analysis, we noted that the program exceeded the 20% CAP on planning and administrative cost for a given award year. We noted that the Program exceeded the 15% CAP on public service activities cost.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-29 (continued)

Condition Found (continued)

Year	Account #	Fund Date	Funded	DrawnThru	Drawn In	Balance	Percentage not spent as of 10/1/07
1990	355	10/25/2002	$ 7,104	$ 7,104	$ 6,009	$ –	84.59%
1990	932	5/1/2007	$ 17,205	$ –	–	$ 17,205	100.00%
1994	929	4/3/2007	$ 8,691	$ 8,691	8,691	$ –	100.00%
1995	361	2/16/2001	$ 24,210	$ 3,000	–	$ 21,210	87.61%
1995	935	5/3/2007	$ 8,336	$ –	–	$ 8,336	100.00%
1996	325	4/2/2001	$ 118,000	$ 76,576	–	$ 41,424	35.10%
1996	322	2/16/2001	$ 47,546	$ 47,546	44,461	$ –	93.51%
1996	324	10/8/2002	$ 200,000	$ 70,625	58,597	$ 129,375	93.99%
1997	335	8/21/2003	$ 13,332	$ 13,332	10,638	$ –	79.79%
1997	933	5/1/2007	$ 21,057	$ 21,057	21,057	$ –	100.00%
1998	378	6/23/2003	$ 86,000	$ 44,800	–	$ 41,200	47.91%
1998	383	4/22/2005	$ 70,000	$ 45,735	45,735	$ 24,265	100.00%
1998	930	4/3/2007	$ 20,282	$ 20,282	20,282	$ –	100.00%
1999	925	3/23/2007	$ 140,000	$ 140,000	140,000	$ –	100.00%
1999	937	5/7/2007	$ 3,425	$ –	–	$ 3,425	100.00%
2000	444	10/16/2001	$ 75,000	$ 30,945	–	$ 44,055	58.74%
2000	950	8/29/2007	$ 9,992	$ –	–	$ 9,992	100.00%
2000	951	8/29/2007	$ 250,000	$ 250,000	250,000	$ –	100.00%
2001	544	6/3/2002	$ 100,000	$ 100,000	45,710	$ –	45.71%
2001	550	2/24/2004	$ 56,300	$ 56,300	32,300	$ –	57.37%
2001	781	6/16/2005	$ 42,300	$ 42,300	27,300	$ –	64.54%
2001	546	4/22/2005	$ 39,300	$ 39,300	39,300	$ –	100.00%
2001	917	2/27/2007	$ 200,000	$ 175,000	175,000	$ 25,000	100.00%
2001	918	2/27/2007	$ 50,000	$ 50,000	50,000	$ –	100.00%
2001	919	2/27/2007	$ 67,700	$ 47,338	47,338	$ 20,362	100.00%
2001	920	2/27/2007	$ 60,000	$ 60,000	60,000	$ –	100.00%
2001	938	5/7/2007	$ 10,440	$ –	–	$ 10,440	100.00%
2001	949	8/29/2007	$ 14,069	$ 14,069	14,069	$ –	100.00%
2002	626	7/24/2003	$ 50,000	$ 49,862	18,056	$ 138	36.39%
2002	627	6/18/2004	$ 15,000	$ 15,000	6,328	$ –	42.18%
2002	621	12/18/2003	$ 82,500	$ 58,794	19,405	$ 23,706	52.26%
2002	631	7/24/2003	$ 200,000	$ 200,000	113,206	$ –	56.60%
2002	615	6/4/2003	$ 21,665	$ 18,291	9,226	$ 3,375	58.16%
2002	613	12/18/2003	$ 15,000	$ 15,000	10,999	$ –	73.33%
2002	914	2/26/2007	$ 60,000	$ 60,000	60,000	$ –	100.00%
2002	915	2/26/2007	$ 224,101	$ 224,101	224,101	$ –	100.00%
2002	916	2/26/2007	$ 25,000	$ –	–	$ 25,000	100.00%
2002	934	5/3/2007	$ 50,000	$ 36,500	36,500	$ 13,500	100.00%
2003	667	11/8/2004	$ 10,000	$ 9,026	5,119	$ 974	60.93%
2003	690	4/22/2005	$ 50,000	$ 49,350	46,170	$ 650	93.64%
2003	678	10/26/2004	$ 155,000	$ 17,966	14,666	$ 137,034	97.87%
2003	677	4/22/2005	$ 32,870	$ 32,870	32,870	$ –	100.00%
2003	680	4/22/2005	$ 55,794	$ 37,942	37,942	$ 17,852	100.00%
2003	684	4/22/2005	$ 79,156	$ 74,950	74,950	$ 4,206	100.00%
2003	687	4/22/2005	$ 39,578	$ 32,941	32,941	$ 6,638	100.00%
2003	899	2/16/2007	$ 108,729	$ 108,729	108,729	$ –	100.00%
2003	900	2/16/2007	$ 25,064	$ 25,064	25,064	$ –	100.00%
2003	901	2/16/2007	$ 14,156	$ 14,156	14,156	$ –	100.00%
2003	931	4/20/2007	$ 17,130	$ 17,130	17,130	$ –	100.00%
				Total	**$ 2,004,046**		

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-29 (continued)

Condition Found (continued)

Out of $4,080,446 total amount disbursed in fiscal year 2007, $2,004,045 pertains to periods for which the Government had failed to use 70% of their funds within 3 years; per review of the 2006 Consolidated Annual Performance Evaluation Report (CAPER), the excess in planning and administrative cost was due to an accounting and coding error from 2005 that resulted in cost being captured in the 2006 report. We noted that the client was advised to revise the fiscal year 2005 CAPER report but we did not receive any evidence that it was done.

The total amount of public service activities cost in fiscal year 2007 was $532,533. Public service should not have exceeded $289,545 in order to be in compliance with the 15% cap.

Questioned Costs
$2,004,046

Underlying Cause
The Program does not have policies in place to ensure that subgrants that do not meet earmarking requirements are timely identified for corrective action. Also, the Program does not have a proper tracking system to ensure that costs do not go over the limits allowed by the grant agreement.

Effect
The Program is not in compliance with earmarking requirements. This may lead to costs being disallowed by the Federal awarding agency.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-29 (continued)

Recommendation
The Program should put in place adequate procedures that can timely ensure that the Government satisfies the 70% usage in three years requirement. The Program also should strengthen its funding status tracking system to ensure specific cost items do not overrun their limits.

Management's Response
We concur with the finding and will consider the recommendation in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-30

Program
U.S. Department of Housing and Urban Development (HUD) − Community Development Block Grant/Entitlement Program - CFDA No. 14.218

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
Reports for Federal awards must include all activity of the reporting period, supported by applicable accounting or performance records, and must be fairly presented in accordance with Program requirements.

Condition Found
During our audit, we noted the following conditions:

Report	Condition
C04PR03- Activity Summary	The Program only included a portion of the 2007 CO4PRO3 – Activity Summary Report in the CAPER, thus DPNR did not fully report the 2007 summary of activities.
C04PR03- Activity Summary & C04PR26- Financial Summary	The Program could not provide a copy of the transmittal sheet which serves as evidence that the CAPER report was properly reviewed and submitted on time.
60002 Section 3 report	The Program did not submit the 60002 Section 3 Summary Report in fiscal year 2007.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-30 (continued)

Condition Found (continued)
Information needed for the CO4PR03 is available in IDIS, but the Program only uploaded just a portion of it into the CAPER report for submission. The Program could not locate the transmittal sheet that accompanied the fiscal year 2006 CAPER report.

Questioned Costs
Could not be determined.

Underlying Cause
Policies are not in place to ensure the accuracy of information included in the required reports.

Effect
The Program did not accurately report its financial and activity summary. This could affect prior, current and future funding.

Recommendation
The Program should provide key personnel involved in the CDBG reporting with updated information on reporting requirements to ensure future compliance. Also, the Program should establish and maintain efficient records retention and tracking systems for reference as to whether it is meeting its reporting compliance requirements.

Management's Response
We concur with the finding and will consider the recommendation in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-31

Program
U.S. Department of Housing and Urban Development (HUD) − Community Development Block Grant/Entitlement Program - CFDA No. 14.218

Category
Internal Control / Compliance

Compliance Requirement
Program Income

Criteria
24 CFR Section 570.504 indicates that Program income should be recorded as part of the financial transactions of this Program.

Condition Found
The Program failed to provide evidence of Program income as required under the grant agreement. Program management indicated that there was some Program income but that it was not recorded as part of the financial transactions of the Program.

Questioned Costs
Could not be determined.

Underlying Cause
Auditee has not implemented procedures to ensure compliance with the Program income requirements, including tracking, reporting and monitoring.

Effect
Auditee is in noncompliance with this regulation. This could result in excess reimbursement being provided.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-31 (continued)

Recommendation
Auditee should implement procedures to ensure compliance with Program income requirements, including tracking, reporting and monitoring.

Management's Response
We concur with the finding and will consider the recommendation in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Labor

Unemployment Insurance
CFDA No. 17.225

The regular Unemployment Insurance (UI) Program, also referred to as Unemployment Compensation (UC), Unemployment Compensation for Federal Employees (UCFE), and Unemployment Compensation for Ex-Service Members (UCX) programs provide benefits to unemployed workers for periods of involuntary unemployment and help stabilize the economy by maintaining the spending power of workers while they are between jobs. UC programs cover almost all wage and salaried workers. During periods of high unemployment, the Extended Benefits (EB) program pays EB for an additional (or extended) period of time to eligible unemployed workers who have exhausted their entitlement to UC, UCFE, or UCX.

Total Unemployment Insurance expenditures for the fiscal year ended September 30, 2007 amounted to $9,725,357.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-32

Program
U.S. Department of Labor – Unemployment Insurance - CFDA No. 17.225

Category
Internal Control

Compliance Requirement
Reporting

Criteria
Pursuant to 29 CFR 97, A-102 Common Rule, Federal agencies shall reconcile continuing awards at least annually and evaluate Program performance and financial reports.

Condition Found
No evidence of internal controls over compliance for the performance of supervisory reviews of reports filed with Federal agencies was provided. Based on inquiries to management, we concluded such controls were not in place during fiscal year 2007.

Reports covered by our finding include the following:

- SF-269, Financial Status Report
- SF-272, Federal Cash Transactions Report
- ETA 2112, UI Financial Transaction Summary
- ETA 581, Contribution Operations
- ETA 191, Financial Status of UCFE/UCX
- ETA 227, Overpayment Detection and Recovery Activities
- ETA 2208A, Quarterly UI Contingency Report

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-32 (continued)

Questioned Costs
Not applicable.

Underlying Cause
The V.I. Department of Labor does not have procedures in place to ensure that supervisory reviews of reports filed with Federal agencies are performed.

Effect
This situation can cause inaccurate reports being filed which might lead to costs being disallowed by the Federal awarding agency.

Recommendation
The V.I. Department of Labor should ensure proper procedures are in place to ensure review and approval of reports by a supervisor are performed and documented.

Management's Response
SF-269, Financial Status Reports are filed electronically by the Accountant and approved and certified by the Director of Administration. The SF-272 is created by the Regional Office and reconciled quarterly by the Accountant.

All other UI Required ETA reports, whether generated by our VIDOLA$ system or manually generated, will be verified, signed, and dated before entry into the SUN system. Any information entered into the SUN systems which subsequent to its entry creates a retrievable report will be so retrieved, verified for accuracy of original entry, signed, and dated. A file containing all signed copies of all ETA reports will be maintained at one location to be designated and available for review.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-33

Program
U.S. Department of Labor – Unemployment Insurance - CFDA No. 17.225

Category
Internal Control / Compliance

Compliance Requirement
Special Tests and Provisions – Unemployment Insurance (UI) Benefits Payment

Criteria
As required by 20 CFR section 602.11(d), to satisfy the requirements of sections 303(a)(1) and (6), a State law must contain a provision requiring, or which is construed to require, the establishment and maintenance of a Quality Control (QC), specifically a Benefits Accuracy Measurement (BAM) program in accordance with OMB Circular A-133 of Part IV. The establishment and maintenance of such a QC program in accordance with OMB Circular A-133 of Part IV shall not require any change in State law concerning authority to undertake redeterminations of claims or liabilities or the finality of any determination, redetermination or decision.

Condition Found
The UI Program does not have a Benefits Accuracy Measurement program implemented as required by 20 CFR Section 602.11(d).

Questioned Costs
Not applicable.

Underlying Cause
The V.I. Department of Labor does not maintain adequate controls to ensure that a Quality Control (QC) program, specifically a Benefits Accuracy Measurement (BAM) program is designed and implemented as required by 20 CFR Section 602.11(d).

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-33 (continued)

Effect
The lack of internal controls to ensure these procedures are performed may lead to noncompliance with Program requirements.

Recommendation
Appropriate internal controls need to be implemented to ensure that a Benefits Accuracy Measurement program is implemented in order to assess the accuracy of UI benefit payments and denied claims.

Management's Response
We concur with the finding and will consider the recommendation in our Corrective Action Plan.

Due to our size as a reporting state and our lack of adequate staffing, the Virgin Islands has been in the past exempted from this reporting requirement.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-34

Program
U.S. Department of Labor – Unemployment Insurance - CFDA No. 17.225

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with the executed Cash Management Improvement Act agreement (CMIA) for the period of October 1, 2005 to September 30, 2007, under the U.S. Department of Treasury regulations at 31 CFR part 205, the Government requires the use of an "average clearance" funding technique for vendor and payroll related costs. Under the "average clearance" funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government's bank account on the fourth day following the release of funds for vendor disbursements and on the day in which payroll checks are released for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-34 (continued)

Condition Found

The UI Program is not complying with requirements stated by the CMIA. As confirmed with DOL management, the actual drawdown for any given payroll period is usually performed the day after the payroll has been paid out by the Department of Finance. We tested 2 out of the 9 drawdowns (totaling $2,043,198) performed during fiscal year 2007. Both drawdowns tested totaling $809,640 were not in compliance with the clearing funding patterns stipulated in the CMIA Agreement. The noncompliance relates to drawdowns being requested after the specified date as per CMIA Agreement. While this did not lead to drawing funds in advance of CMIA established timing, it is evidence of lack of sufficient or effective internal controls over drawdown requirements. Our total sample included the following drawdowns:

Sample #	Drawdown Amount
1	$362,270
2	$447,370

Questioned Costs

None.

Underlying Cause

The USVI Department of Labor does not have a process in place to ensure reimbursement requests are made within the guidelines established by the CMIA Agreement.

Effect

Lack of effective internal controls over compliance with cash management requirements could lead to funding of Program costs in advance of the cost being incurred as well as questioned costs in the event drawdowns are made prior to allowable period. Alternatively, as noted in the items above, lack of timely request for reimbursement can result in adverse cash flow implications as well as lost interest income.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-34 (continued)

Recommendation
The USVI Department of Labor should design and implement controls to ensure timely requests for reimbursements are made and that reimbursement is only requested for costs which have already been incurred and are allowable.

Management's Response
The Department is in agreement with this finding.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-35

Program
U.S. Department of Labor – Unemployment Insurance - CFDA No. 17.225

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
29 CFR 97.20(B)(6) requires that internal controls be maintained to ensure that Federal transactions are properly recorded and accounted for in the recipient's books and records so as to enable to prepare reliable Federal reports.

Condition Found
The V.I. DOL prepares Federal financial reports based on information obtained from the Program records. However, these reports do not agree with supporting records as follows:

Federal Receipts :		
ETA 2112		$1,605,668
Program Records		1,675,115
	Difference	$ (69,447)

Furthermore, the Program did not perform a reconciliation of its accounting records with amounts reported. Timely reconciliations are necessary to ensure accurate reporting to the U.S. DOL.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-35 (continued)

Questioned Costs

No questioned costs for the year ended September 30, 2007, local Program records support an amount of Federal receipts less than reimbursement amounts reported in ETA 2112.

Underlying Cause

Lack of reconciliation between amounts reported in ETA 2112 with the amounts accounted for in the Government accounting system.

Effect

The lack of timely reconciliation of the Program's records with amounts reported in ETA 2112, may lead to incorrectly recorded transactions not being promptly detected and corrected, and may also lead to incorrect financial information presented in reports submitted to the Federal government and claims for reimbursement.

Recommendation

The V.I. DOL should implement additional procedures and internal controls to ensure proper reconciliation between Program accounting records and reports filed is performed timely and discrepancies investigated.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-35 (continued)

Management's Response

The ETA 2112 report submits as part of other financial information a total of all deposits received during a particular month. This total is a tabulation of deposits made by our Cashiers or Revenue Agents. The program record referred to in the finding is a query performed by a programmer for all deposits with dates of the fiscal year being audited, inclusive. We argued that because the manual entry of payments is subject not only to errors in the posting of the payment amounts but also the posting of the correct received date, it would be virtually impossible to have these figures match. The reconciliation of these figures could be further challenged by the manner in which a transaction is reversed or applied to another quarter. All the previously mentioned errors are normally resolved when employers get statements from the Agency or when accounts are audited or reviewed. After discussion with the pertinent Tax Staff, we will be procuring an enhancement to our Tax System so that we may run a monthly reconciliation between deposits slip for the month and the sum of the totals of all batches posted. This way we can have a three way reconciliation of the deposits slips, the batch total summary, and the ETA 2112.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-36

Program
U.S. Department of Labor – Unemployment Insurance - CFDA No. 17.225

Category
Internal Control / Compliance

Compliance Requirement
Special Tests and Provisions – Employer Experience Rating

Criteria
In accordance with 26 USC Section 3303, the computation of the employer's annual tax rate should be based on State UI law.

Condition Found
During our Employer Experience Rating testing, we were not able to determine the experience rating related to the following employers listed below. Our sample consisted in selecting 40 employers out of a universe of 2,794.

#	FEIN	Employer Experience Rating	Comments
1	16026	.01	A
2	16126	.01	A
3	16839	.01	A
4	2516	.01	B
5	16986	.01	C

Comments

A. Submission report dates were not properly identified in the report.
B. Submission report was not provided by management.
C. Submission report was not submitted by the employer.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-36 (continued)

Condition Found (continued)

In addition, no evidence of internal controls over compliance for the performance of supervisory reviews over the employer experience rating process was provided. Based on inquiries to management, we concluded such controls are not in place.

Questioned Costs
Not applicable.

Underlying Cause
The V.I. Department of Labor does not have procedures in place to ensure proper review during the employer submission report process.

Effect
Lack of internal controls could lead to noncompliance with the requirement and incorrect computation of the employer's annual state UI tax rate and thus loss of funding (under-reimbursement) or over-reimbursement by the Federal government.

Recommendation
The V.I. DOL should ensure proper procedures are in place to ensure that employer submission reports are properly reviewed in order to ascertain all information needed from the employer is properly reported to ensure employee UI rates are properly calculated.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-36 (continued)

Management's Response

Response to comment A – On one account (16126) the registration report had no liability date. The date was procured and the database updated but the cashier failed to note the date on the form. This was corrected. We are in the process of procuring the other two missing registrations.

Response to comment B – This account became inactive 2002/1 quarter and the original registration that dates back to a liability date of January 1, 1980 may have been erroneously purged and sent to retention.

Response to comment C – Cashier received contribution report and payment prior to registration. A request for the completion of a registration was sent but never returned. We have sent out another request for the missing registration.

In relation to internal controls, we concur with the finding and will consider the recommendations in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-37

Program
U.S. Department of Labor – Unemployment Insurance - CFDA No. 17.225

Category
Internal Control / Compliance

Compliance Requirement
Eligibility

Criteria
In accordance with 29 CFR 96.41, The Secretary of Labor, the V.I. DOL Inspector General, the Comptroller General of the United States, or any of their duly authorized representatives (including certified public accountants under contract), shall have access to any books, documents, papers, and records (manual and automated) of the entity receiving funds from V.I. DOL and its subrecipients/subcontractors for the purpose of making surveys, audits, examination, excerpts, and transcripts.

Condition Found
During our Eligibility testing procedures, out of a sample of 65 claimant files, 16 claimant files were not provided by the V.I. DOL. Based on this, we were not able to complete our compliance testing procedures.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-37 (continued)

Condition Found (continued)
Claimant files for selected sample benefit payments not provided :

Sample #	Check Date	Check #	Check Amount	BYE
1	29-Dec-06	23625	$ 826	28-Jul-07
26	5-Oct-06	20442	304	19-May-07
27	3-Nov-06	21581	416	13-Oct-07
28	6-Nov-06	21649	620	21-Jul-07
29	4-Jan-07	23732	832	1-Dec-07
30	12-Jan-07	24066	184	15-Sep-07
31	18-Jan-07	24203	384	17-Nov-07
32	21-Feb-07	25416	738	22-Dec-07
33	2-Mar-07	25819	151	9-Feb-08
34	13-Apr-07	27019	832	1-Sep-07
35	24-Apr-07	27370	852	23-Feb-08
36	30-May-07	29269	852	12-Apr-08
37	20-Jun-07	30189	852	16-Feb-08
38	28-Jun-07	30520	254	12-Jan-08
39	17-Jul-07	31258	232	6-Oct-07
40	26-Jul-07	31822	740	7-Jun-08
			$9,069	

Questioned Costs
$9,069

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-37 (continued)

Underlying Cause
The V.I. Department of Labor does not maintain adequate controls to ensure records are maintained and safeguarded as evidenced with the requested sample items backup support being unavailable.

Effect
Funds may be expended and reimbursement requested for unallowable costs.

Recommendation
The V.I. Department of Labor should implement policies for maintaining and safeguarding claimant file records.

Management's Response
We concur with this finding and will pursue, as office space becomes available, the procurement of more file cabinets to reduce the amount of handling needed when files have to be transferred and revamped to storage boxes thereby reducing the possibility of numerical misfiling. Also, it must be noted that the file that could not be found was for a claim filed at our Frederiksted Office (LO-3) which was closed as of end of day June 22, 2007. Due to the small amount of files at that office we have assumed that it may have been mixed-up with other documents. We exhausted all efforts to locate this file by even searching our storage facility off-premise.

Fourteen files have been located and will be immediately available to the Audit Team for review. We are still trying to locate a Local Office 2 file.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

U.S Environmental Protection Agency

Capitalization Grants for Drinking Water State Revolving Fund
CFDA No. 66.468

Capitalization grants are awarded to States to create and maintain Drinking Water State Revolving Funds (DWSRF) programs. States can use capitalization grant funds to establish a revolving loan fund (DWSRF) to assist public water systems finance the costs of infrastructure needed to achieve or maintain compliance with Safe Drinking Water Act (SDWA) requirements and protect the public health objectives of the Act. The DWSRF can be used to provide loans and other types of financial assistance for qualified communities, local agencies, and private entities. States may also set aside certain percentages of their capitalization grant or allotment for various activities that promote source water protection and enhanced water systems management.

Total Capitalization Grants for Drinking Water State Revolving Fund's Federal expenditures for the fiscal year ended September 30, 2007, amounted to $1,009,481.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-38

Program
U.S Environmental Protection Agency – Capitalization Grants for Drinking Water State Revolving Fund - CFDA No. 66.468

Category
Internal Control / Compliance

Compliance Requirement
Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Reporting

Criteria
Pursuant to 40 CFR 31.20 (b) on "Standards for financial management systems", section (2) Accounting Records, grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. In addition, section (6) Source Documentation, accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

Condition Found
During the time when we were assigned to perform our testing procedures, the Auditee was unable to provide appropriate audit evidence (i.e., associated invoices or certifications) supporting a cash drawdown of $715,373 (Grant ID FS98235203) made during the audit period. Furthermore, the referred amount was reported as part of unliquidated obligations in the Financial Status Report (SF-269A) for the period ending September 30, 2007. The documentation provided by the Auditee was associated with the initial encumbrances established for the specified projects, which in our opinion does not support an unliquidated or liquidated obligation.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-38 (continued)

Condition Found (continued)
In addition, the following differences were noted on the SF 269 submitted during the audit period:

	Period of 10/01/06-9/30/07		
Award #	**FSR**	**Detail of Expenditures**	**Difference**
FS98235205	$ 54,178	$ 15,529	$ 38,649
FS98235201	141,438	19,024	122,414
FS98235203	720,694	3,288	717,406
Total	$ 916,310	$ 37,841	$ 878,469

Questioned Costs
$878,668

Underlying Cause
Current internal controls in the Department of Planning and Natural Resources (DPNR) are not operating effectively with regard to the preparation of Federal reports and retaining supporting documentation.

Effect
The Program may have reported Federal expenditures without supporting documentation. This may lead to the reporting of unallowable Federal expenditures or disallowance of expenditures by the Federal agency.

Recommendation
The Program should establish procedures to ensure Federal financial reports are properly reviewed and reconciled by trained supervisory personnel which should ensure proper supporting documentation is maintained for each filed report.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-38 (continued)

Management's Response
Department of Planning and Natural Resources (DPNR) do not concur with this finding.

	Period of 10/01/06-9/30/07			
Award #	**FSR**	**Detail of Expenditures**	**Difference**	**Comment**
FS98235205	$ 54,178	$ 15,529	$ 38,649	SF269 prior year reconciled adjustment.
FS98235201	141,438	19,024	122,414	SF269 prior year reconciled adjustment.
FS98235203	720,694	3,288	717,406	SF269 unliquidated obligation of $716,916 plus adj of $490.
Total	$ 916,310	$ 37,841	$ 878,469	

Questioned Costs: $878,668

Per the table referenced above the figures reported on the FSR shows prior year encumbrances totaling (which were obligated, but not liquidated) of $717,406, that were not liquidated at the reporting period, a manual liquidation record of encumbrances is kept on prior year encumbrances, the current year detail expenditures report for the period in question will not show the un-liquidated encumbrances. However, these encumbrances will show up on the SF 269 Financial Status Report since the report gives a cumulative figure and is for the grant period, and the expenditures will reflect figures for the current budget period; both figures cannot match. Further, this was explained in detail in our August 28, 2009 email to the auditors. Therefore, DPNR does not concur with this finding.

Auditor's Conclusion
As detailed in the finding, the referred supporting documentation was not available for review at the time of our audit. Therefore, the finding remains as stated.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

U.S. Environmental Protection Agency

Performance Partnership Grants
CFDA No. 66.605

Performance Partnership Grants (PPGs) are the cornerstone of the National Environmental Performance Partnership System (NEPPS) - EPA's strategy to strengthen partnerships and build a results-based management system. PPGs are innovative grant delivery tools that allow states and tribes to combine up to 20 eligible Program grants into a single grant with a single budget. PPGs can reduce administrative transaction costs, provide the flexibility to direct resources toward the highest priority environmental problems, and support cross-media approaches and initiatives. EPA's overarching goal is to optimize the leveraging power of PPGs to strategically focus on the joint priorities of EPA, states and Tribes.

Total Performance Partnership Grants Federal expenditures for the fiscal year ended September 30, 2007 amounted to $2,444, 695.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-39

Program
U.S. Environmental Protection Agency – Performance Partnership Grant - CFDA No. 66.605

Category
Internal Control / Compliance

Compliance Requirement
Matching, Level of Effort, Earmarking

Criteria
Pursuant to administrative requirement for "matching or cost sharing" in 40 CFR 31.24(6) related to "records", costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors.

Furthermore, pursuant to 40 CFR 31.20(6) on standards of financial management systems related to "source documentation", accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-39 *(continued)*

Condition Found

During our testing of 40 vendor and payroll expenditure selections from the Program's matching fund report totaling $67,132 out of a universe of $530,891, we noted the following exceptions:

#	Employee No.	Period Ending	Charged to Grant	Comments
1	75640	10/15/06-10/28/06	$ 190	B
2	67105	04/29/07-05/12/07	191	B
3	90638	04/29/07-05/12/07	15	B
4	79894	--	399	A, B
5	59460	05/27/07-06/09/07	121	B
6	2698	05/28/07-06/07/07	130	B
7	67105	05/27/07-06/09/07	23	B
8	2698	06/10/07-06/23/07	64	B
9	59460	06/10/07-06/23/07	14	B
10	79894	11/12/06-11/25/06	85	B
11	78819	11/26/06-12/09/06	138	C, B
12	67105	01/07/07-01/20/07	10	B
13	65977	04/29/07-05/11/07	160	B
14	36047	06/10/07-06/23/07	14	B
15	26948	06/10/07-06/23/07	13	B
16	66014	06/10/07-06/23/07	44	B
			$1,611	

A. Time distribution sheet for employee was not available for testing.
B. The NOPA did not match with the payroll register.
C. Worked hours reported on the time distribution sheet do not match with the payroll register.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-39 *(continued)*

Questioned Costs
$1,611

Underlying Cause
Current internal controls in the V.I. Department of Planning and Natural Resources (DPNR) are not operating effectively with regard to providing for the proper maintenance of accounting records.

Effect
The lack of supporting evidence may result in improper local fund spending being accounted for matching requirements, leading to possible non-compliance with Federal requirements.

Recommendation
The V.I. Department of Planning and Natural Resources and the Department of Finance should coordinate their efforts to maintain proper accounting records.

Management's Response
The Department of Planning and Natural Resources (DPNR) does not concur with this finding.

A revised list was provided by the auditors on August 19, 2009, consisting of 8 remaining questioned cost for payroll. We provided the response to this questioned cost in an email in August 26, 2009.

Auditor's Conclusion
As detailed in the finding, the supporting documentation for the listed transactions was not available for review during the performance of our audit procedures or within the reasonable period of time originally agreed with DPNR. Therefore, the finding remains as stated.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-40

Program
U.S. Environmental Protection Agency – Performance Partnership Grant - CFDA No. 66.605

Category
Internal Control / Compliance

Compliance Requirement
Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Availability

Criteria
Pursuant to 40 CFR 31.20(6) on standards of financial management systems related to "source documentation", accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

Condition Found
During our testing of 40 payroll expenditure selections from the Program's reported expenditures detail totaling $61,261 out of a universe of $1,512,922, we noted the following:

#	Employee No.	Period Ending	Charged to Grant	Comments
1	66014	12/10/06 - 12/23/06	$ 621	E
2	67105	9/17/2006 - 9/30/06	1,750	E
3	78984	04/28/07 - 05/12/06	2,788	A,C
4	69966	04/30/07 - 05/12/07	288	E
5	66014	12/10/06 - 12/23/06	460	E
6	45416	11/26/06 - 12/9/06	907	C

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-40 (continued)

Condition Found (continued)

#	Employee No.	Period Ending	Charged to Grant	Comments
7	90638	4/29/07 - 5/12/07	21	E
8	60216	09/17/06 - 09/30/06	79	B,D
9	56969	9/17/06 - 9/30/06	72	B
10	75225	9/30/06	1,752	D
			$1,924	

Comments:

A. Time distribution sheet for employee was not available for testing.
B. Payroll period transaction for the selected employee does not correspond to the allowable period of availability.
C. Hours charged did not pertain to the Program.
D. Time distribution sheet was not signed by the employee.
E. Worked hours reported on the time distribution sheet do not match the payroll register.

Questioned Costs
$1,924

Underlying Cause
Current internal controls in the V.I. Department of Planning and Natural Resources (DPNR) are not operating effectively with regard to providing for the evidence of review and approval of employee timesheets

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-40 (continued)

Effect
The lack of supporting evidence and the incorrect allocation of hours worked between the department's Programs may result in reimbursement being made for unallowable costs.

Recommendation
DPNR management should implement procedures to ensure that records are properly maintained and available. Also, DPNR management should implement procedures to effectively monitor and reconcile actual hours worked for each of the department's Programs.

Management's Response
DPNR does not concur with this finding. A revised list was provided by the auditors on August 19, 2009, consisting of 16 remaining questioned cost for payroll. We provided the response to this question cost in an email on August 26, 2009. DPNR will monitor closely the accountant's monthly reports to ensure compliance with internal controls.

Auditor's Conclusion
As detailed in the finding, the supporting documentation for the listed transactions was not available for review during the performance of our audit procedures or within the reasonable period of time originally agreed with DPNR. Therefore, the finding remains as stated.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-41

Program
U.S. Environmental Protection Agency – Performance Partnership Grant - CFDA No. 66.605

Category
Internal Control / Compliance

Compliance Requirement
Equipment and Real Property Management

Criteria
OMB Circular A-102 requires that equipment be used in the Program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

40 CFR 31.32 addresses equipment requirements for EPA programs (d) Management requirements.

Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-41 (continued)

Criteria (continued)

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

(3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

Condition Found

During our testing of 2 equipment additions selections totaling $7,180 out of a universe of $17,371, we noted the following:

#	PO No.	Vendor I.D.	Period Recorded	Charged to Grant	Comments
1	27003431	4717	12/31/2006	$3,590	A
2	27003432	4717	12/31/2006	3,590	A
				$7,180	

A. The property records did not contain the following information about the equipment: source, acquisition date and cost and percentage of Federal participation in the cost.

Questioned Costs

$7,180. However, considering the error represents 100% of our sample, our best estimate of likely questioned costs could be up to the complete population, $17,371

Underlying Cause

The V.I. Department of Planning and Natural Resources' controls over property and equipment purchased with Federal funds are either not in place or not effective.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-41 (continued)

Effect
The lack of proper inventory controls for equipment acquired with Federal funds could result in disallowed costs.

Recommendation
The V.I. Department of Planning and Natural Resources (DPNR) should implement effective internal control procedures to ensure that the requirements of property acquired with Federal funds are met.

Management's Response
DPNR partially concurs with this finding. The department's inventory kept in-house before the ERP system listed items showing dates, amount, funding source, property number, serial numbers description and location. This inventory was reconciled with an individual inventory kept for each employee, wherein, the physical inventory is satisfied. However, with the implementation of the ERP system which involved the Procurement process the format for inventory changed. We requested the inventory from the Department of Property and Procurement as the official inventory of the Government the listing did not include the necessary information to satisfy our granting requirements.

Recognizing that this process will not satisfy grants requirements, DPNR has now gone back to its original way of recording the department's inventory, per the attached memo.

DPNR will have to concur with the audit comments, however it should be noted that the two items in question were identified and allowed to be purchased in the grant.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-42

Program
U.S. Environmental Protection Agency – Performance Partnership Grant - CFDA No. 66.605

Category
Internal Control / Compliance

Compliance Requirement
Procurement and Suspension and Debarment

Criteria
In accordance with CFR 40 31.36 (h)(11), retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed. Also, pursuant to OMB Circular A-102 Common Rule, all of grantee agencies must have written procurement policies.

Condition Found
During our testing of 6 procurements for fiscal year 2007 totaling $146,005 out of a universe of 80 procurements totaling $290,742, we noted the following:

Period	Vendor ID	Purchase Order	Voucher Number	Document Number	Check Number	Invoice Amount	Comments
4/30/2007	12282	27000664	8205	7005	9183140	$ 6,670	A
4/30/2007	12282	27013639	77939	71400	9186035	6,720	A
1/30/2007	12282	27007554	38385	33794	9184703	8,400	A
4/30/2007	12282	27013638	77948	71408	9186035	8,505	A
						$30,295	

Comments

A. The procurement file has not been provided to demonstrate compliance with their written policy and OMB Circular A-102.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-42 (continued)

Questioned Costs
$30,295

Underlying Cause
Current internal controls in the DPNR are not existent or not operating effectively with regard to providing for the proper maintenance of accounting records.

Effect
The Program may have expended Federal funds for procurements that were not in accordance with procurement written policies, possibly leading to reimbursement being made for unauthorized and thus unallowable procurements.

Recommendation
DPNR and the Department of Property and Procurement should coordinate their efforts to ensure adequate policies are in place for procurements and that such policies are being followed to maintain proper accounting records for properly acquired with Federal funds.

Management's Response
DPNR does not agree with this finding. The Grantor agency has certified the Vendor in question to perform services. The procurement approval was followed. All documents in question did go through the procuring arm of the Government and has been approved and signed by the Commissioner of Property and Procurement.

Auditor's Conclusion
As detailed in the finding, the supporting documentation for the listed transactions was not available for review during the performance of our audit procedures or within the reasonable period of time originally agreed with DPNR. Therefore, the finding remains as stated.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-43

Program
U.S. Environmental Protection Agency – Performance Partnership Grant - CFDA No. 66.605

Category
Internal Control / Compliance

Compliance Requirement
Cash Management and Reporting

Criteria
In accordance with 31 CFR Part 205, the Government requires that each recipient request Federal funds based on actual expenditures incurred during the period.

Condition Found
During our testing of the total cash drawn during the fiscal year 2007, we noticed the following condition:

Total cash draws as per ASAP	$ 2,176,495
Total expenditures reported (SF 269)	2,120,263
Total excess of cash drawn over SF 269	$ 56,232

The Program was not able to reconcile the difference between total cash drawn and total expenditures reported in the SF 269.

Questioned Costs
$56,232

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-43 (continued)

Underlying Cause
Current internal controls in the DPNR are not operating effectively with regard to the reconciliation of Federal reports with cash draws.

Effect
The Program may have drawn Federal funds for unallowable costs.

Recommendation
The V.I. Department of Planning and Natural Resources should establish procedures to ensure Federal financial reports are properly reviewed and reconciled by trained supervisory personnel.

Management's Response
DPNR does not concur with this finding. The multiyear grant budget and project period was 10/1/05 through 9/30/07. The expenditures reported on the FSR 269 were the period of 10/01/06-9/30/07. However, the total cash draws as per ASAP included expenditures that were reported in the prior year and paid within fiscal year 2007. This outline in email along with attachments was sent to the auditors in August 28, 2009, and prior in meeting at our St. Thomas office in late June.

Auditor's Conclusion
As detailed in the finding, the supporting documentation for the listed transactions was not available for review during the performance of our audit procedures or within the reasonable period of time originally agreed with DPNR. Therefore, the finding remains as stated.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Education

Special Grants for Innovative Programs (Part A, Title V)
CFDA No. 84.298

This former Title VI Program was reauthorized by the No Child Left Behind Act (NCLB Act), Pub. L. No. 107-110, as Title V, Part A of the Elementary and Secondary Education Act (ESEA). The objectives of Title V, Part A are to: (1) support local educational reform efforts that are consistent with and support statewide education reform efforts; (2) provide funding to enable State Educational Agencies (SEAs) and Local Educational Agencies (LEAs) to implement promising educational reform programs and school improvement programs based on scientifically based research; (3) provide a continuing source of innovation, and educational improvement, including support programs to provide library services and instructional and media materials; (4) meet the educational needs of all students, including at-risk youth; and (5) develop and implement education programs to improve school, student, and teacher performance, including professional development activities and class size reduction programs (Title V, Part A, Section 5101(a) of the ESEA (20 USC 7201(a))).

Total State Grant for Innovative Programs (Part A, Title V) Federal expenditures for the fiscal year ended September 30, 2007 amounted to $4,831,802.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-44

Program
U.S. Department of Education – State Grant for Innovative Programs (Part A, Title V) - CFDA No. 84.298

Category
Internal Control

Compliance Requirement
Cash Management

Criteria
Pursuant to the Special Conditions of the Compliance Agreement between the Virgin Island Department of Education (VIDE) and the U.S. Department of Education (the Department), VIDE must draw down funds and provide all matching funds to the Agent within 24 hours of receipt of the written notice from the Agent. Nonetheless, in the event of failure to draw down funds with this condition, the Agent must notify the Department, and the Department will determine whether drawdown authority must be transferred to the Agent.

Condition Found
During our testing over cash management, VIDE was unable to provide written evidence supporting that internal controls to ensure that the drawdowns were made within 24 hours of receipt of the written notice from the Agent were working effectively during fiscal year 2007. This condition was noted on 17 out of 65 payment vouchers selected for testing of a total universe of 394, as shown in the table below. However, the Agent (A&M) asserted to us that drawdowns were made within the prescribed period, and as a result, they have not been in the position to have to notify the Department on this matter.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-44 (continued)

Condition Found (continued)

#	Check No.	Check Date	Vendor No.	Invoice Number	Invoice Amount	Drawdown request date per GAPS	Date per A&M request	No. of days [Notice received vs. drawdown request]
1	558	8/29/2007	6588	303	$ 327	9/4/2007	8/29/2007	6
2	568	8/29/2007	16875	90288	1,483	9/4/2007	8/29/2007	6
3	584	8/30/2007	20148	8002918	21	9/4/2007	8/30/2007	5
4	585	8/30/2007	20143	8002922	21	9/4/2007	8/30/2007	5
5	590	8/30/2007	21496	T-041-07	547	9/4/2007	8/30/2007	5
6	597	8/30/2007	21501	T-041-07	315	9/4/2007	8/30/2007	5
7	731	9/29/2007	15488	20962	495	10/3/2007	10/1/2007	2
8	573	8/30/2007	4579	1	21	9/4/2007	8/30/2007	5
9	578	8/30/2007	8226	1	21	9/4/2007	8/30/2007	5
10	663	9/29/2007	3458	30083	2,126	10/3/2007	10/1/2007	2
11	668	9/29/2007	4998	H13033390002	760	10/3/2007	9/29/2007	4
12	688	9/29/2007	10552	IN077119	1,350	10/3/2007	9/29/2007	4
13	720	9/29/2007	9912	191373	413	10/3/2007	10/1/2007	2
14	721	9/29/2007	20026	6319606	29,583	10/3/2007	10/1/2007	2
15	721	9/29/2007	20026	6276011	3,980	10/3/2007	10/1/2007	2
16	726	9/29/2007	13483	200702834	15,453	10/3/2007	10/1/2007	2
17	735	9/29/2007	18019	9310522	20	10/3/2007	10/1/2007	2

Questioned Costs
Not applicable.

Underlying Cause
It appears that VIDE and the Agent did not have a formal process in place to document when cash drawdowns are requested that will evidence the receipt of the notification from the Agent.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-44 (continued)

Effect
Lack of formal procedures between VIDE and the Agent to ensure cash drawdowns are requested within the required timeframe after requested is made by the Agent, could affect cash flow demands and non-compliance with the Special Conditions Agreement

Recommendation
VIDE should implement procedures to ensure that all drawdowns are requested within the timeframe as specified in the Special Conditions to the Compliance Agreement. This could include a dated receipt stamp of notification and/or a dated log signed by both parties acknowledging receipt.

Management's Response
VIDE does not concur with this finding. The Third Party staff who prepares and delivers the written requests for the VIDE to drawdown grant funds have certified and affirmed that the drawdowns were consistently accomplished within the specified 24-hour timeframe. Although the documentation of the 17 transactions listed were not time stamped, Section II.C.4, of the Special Conditions clearly specifies that the Third Party Fiduciary is to notify the Department of any failures in completing the drawdown in the 24-hour period. Since they have not had to report to the Department that failures have occurred, no reporting has been necessary. However, VIDE will immediately have each document that is received from the Third Party staff dated and time-stamped.

Auditor's Conclusion
This is an internal control finding, noting there is no evidence of the related control being timely performed. The finding does not question compliance, which is what the management's response addresses. The management's response even addresses the fact that documentation evidencing internal control is timely performed will be improved. Therefore, the finding remains as stated.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Health and Human Services

Temporary Assistance for Needy Families (TANF)
CFDA No. 93.558

The objective of the State and Tribal TANF programs are to provide time-limited assistance to needy families with children so that the children can be cared for in their own homes or in the homes of relatives; end dependence of needy parents on government benefits by promoting job preparation, work, and marriage; prevent and reduce out-of-wedlock pregnancies, including establishing prevention and reduction goals; and encourage the formation and maintenance of two-parent families. This Program replaced the Aid to Families with Dependent Children (AFDC), Job Opportunities and Basic Skills Training (JOBS), and Emergency Assistance (EA) programs.

Total TANF Federal expenditures for the fiscal year ended September 30, 2007, amounted to $6,605,857.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-45

Program
U.S. Department of Health and Human Services – Temporary Assistance for Needy Families (TANF) - CFDA No. 93.558

Category
Internal Control / Compliance

Compliance Requirement
Matching, Level of Effort, Earmarking, and Reporting

Criteria
Pursuant to 45 CFR 263.1(a)(1), the minimum basic Maintenance of Effort (MOE) for a fiscal year is 80 percent of a State's historic State expenditures. However, 45 CFR 263.1(a)(2) establishes that if a State meets the minimum work participation rate requirements in a fiscal year, as required under 45 CFR 261.21 and 261.23, after adjustment for any caseload reduction credit under 45 CFR 261.41, then the minimum basic MOE for fiscal year is 75 percent of the State's historic State expenditures.

Pursuant to 45 CFR 263.13(a)(i), a State may not spend more than 15 percent of the amount that it receives on "administrative costs," as defined at 45 CFR 263.0(b).

Pursuant to 45 CFR 265.7(a) and (d), each State's quarterly reports must be complete and accurate and filed by the due date. As per Section (d), a "complete and accurate report" means that:

1. The reported data accurately reflect information available to the State in case records, financial records, and automated data systems;
2. The data are free from computational errors and are internally consistent (e.g., items that should add to totals do so);
3. The State reports data on all applicable elements; and
4. All expenditures have been made in accordance with §92.20(a) of this title.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-45 (continued)

Condition Found
The Program could not provide the ACF-196-TR reports for the third and fourth quarter of fiscal year 2007. Due to this situation, we could not test compliance with Level of Effort and Earmarking requirements.

Questioned Costs
Could not be determined.

Underlying Cause
Inadequate internal controls over reporting and document retention system.

Effect
The Program may have expended funds for unallowable costs. Completeness of expenditures as per Program accounting records could not be verified. In addition, it can not be verified if amounts reported by the Program reconcile with the accounting records of the Government's ERP system.

Recommendation
The V.I. Department of Human Services (DHS) and the TANF Program should implement additional procedures and internal controls to ensure all required reports are filed, as well as documentation supporting the amounts reported.

Management's Response
We concur with the finding and will consider the recommendation in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-46

Program
U.S. Department of Health and Human Services – Temporary Assistance for Needy Families (TANF) - CFDA No. 93.558

Category
Internal Control / Compliance

Compliance Requirement
Eligibility

Criteria
Pursuant to 45 CFR 263.2(b), benefits and services count only if they have been provided to or on behalf of eligible families. An "eligible family" as defined by the State, must:

1. Be comprised of citizens or non-citizens who:
    a. Are eligible for TANF assistance;
    b. Would be eligible for TANF assistance, but for the time limit on the receipt of federally funded assistance; or
    c. Are lawfully present in the United States and would be eligible for assistance, but for the application of Title IV of PRWORA;

2. Include a child living with a custodial parent or other adult caretaker relative (or consist of a pregnant individual); and

3. Be financially eligible according to the appropriate income and resource (when applicable) standards established by the State and contained in its TANF plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-46 (continued)

Condition Found
During our testing of eligibility for individuals, we were unable to conclude on eligibility for 2 out of 65 selected individual participants due to the following conditions explained in the table below:

No.	Participant ID	Comment
1	3004293	**A**
2	3005290	**A**

Comment
A: Case file provided does not contain information from Fiscal Year 2007.

Questioned Costs
Could not be determined.

Underlying Cause
Although current internal controls provide that eligibility documentation should be maintained in the participant's records, the department responsible for the Program was unable to locate the supporting documents of the participant's files selected.

Effect
The Program may have provided benefits to an individual or family that is not eligible to participate in the Program.

Recommendation
The V.I. TANF Program should implement procedures to ensure that all participant files are properly maintained and available to support the eligibility for participants.

Management's Response
We concur with the finding and will consider the recommendation in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-47

Program
U.S. Department of Health and Human Services – Temporary Assistance for Needy Families (TANF) - CFDA No. 93.558

Category
Internal Control / Compliance

Compliance Requirement
Special Tests and Provisions − Income Eligibility and Verification System

Criteria
Under the State Plan the State is required to coordinate data exchanges with other federally assisted benefit programs, request and use income and benefit information when making eligibility determinations, and adhere to standardized formats and procedures in exchanging information with other programs and agencies. HHS may penalize a State for up to two percent of the SFAG for failure to participate in IEVS (42 USC 609(a)(4) and 1320b-7; 45 CFR section 264.10 and 264.11).

Condition Found
As per inquiries of Program management, this Special Test of Income Eligibility and Verification System requirements have not been performed during fiscal year 2007.

Questioned Costs
Could not be determined.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-47 (continued)

Underlying Cause
Current internal controls for the TANF Program were not operating effectively with regard to compliance with Special Tests and Provisions requirements.

Effect
The Program may have awarded Federal funds to an individual or family which is not eligible to participate in the Program.

Recommendation
The V.I. TANF Program should implement procedures to ensure compliance with Special Tests and Provisions requirements.

Management's Response
We concur with the finding and will consider the recommendation in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Health and Human Services

Child Support Enforcement
CFDA No. 93.563

The objectives of the Child Support Enforcement programs are to: (1) enforce support obligations owed by non-custodial parents, (2) locate absent parents, (3) establish paternity, and (4) obtain child and spousal support. Total Child Support Enforcement Federal expenditures for the year ended September 30, 2007 amounted to $4,174,047.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-48

Program
U. S. Department of Health and Human Services – Child Support Enforcement Program - CFDA No. 93.563

Category
Internal Control/Compliance

Compliance Requirement
Cash Management

Criteria
According to the 31 CFR 205, *Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement*: A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-48 ***(continued)***

Condition Found

During our testing on cash management procedures to verify the timing of cash drawdowns were made as close as is administratively feasible, we noted that 3 drawdowns exceeded a reasonable time between the time funds were released and the transfers were made. In addition, one transfer was made prior to the release of funds. Our sample consisted of 8 drawdowns from a total population of 37 cash draws during the Government's fiscal year. We utilized 7 calendar days after the release of funds for non-payroll and payroll transactions, respectively, as a reasonable time for the drawdowns. The following table shows the exceptions noted during our testing:

No.	Federal Grant ID	Drawdown Amount	Drawdown Type	Funds Released	Drawdown Settlement Date	Days Between Release & Deposit	Approx. Excess Days
1	G 0504VI4004	$ 7,845	Non-payroll	12/11/06	11/26/06	-13	-13
2	G 0504VI4004	$ 157,690	Both	11/22/06 – 12/11/06	12/21/06	11 to 29	4 to 22
3	G 0504VI4004	$ 132,849	Both	12/21/06 – 1/4/07	1/11/07	14 to 21	7 to 14
4	G 0504VI4004	$ 83,033	Both	5/24/07 – 5/25/07	6/8/07	15	8

Questioned Costs

Not applicable.

Underlying Cause

Internal controls of policies and procedures related to transfers of Federal funds for programs not included in the Treasury-State Agreement appear not to be operating effectively to minimize the timing between the time funds are released and the transfers are made to be as close as is administratively feasible.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-48 *(continued)*

Effect
Delays in transferring Federal funds to cover direct cost expenditures into the Governments' cash accounts could affect cash flow demands and may cause other programs to be indirectly funding other program activities.

Recommendation
The Government should ensure appropriate communications related to the release of funds are established between the Treasury Department and the Agencies that would enable them to transfer Federal funds within a reasonable period of time.

Management's Response
We concur with the finding and will consider the recommendation in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Health and Human Services

Medical Assistance Program
(Medicaid-Title XIX)
CFDA No. 93.778

The objective of the Medical Assistance Program (Medicaid or Title XIX of the Social Security Act, as amended, (42 USC 1396 et seq.)) is to provide payments for medical assistance to low-income persons who are age 65 or over, blind, disabled, or members of families with dependent children or qualified pregnant women or children.

Medical Assistance Program Federal expenditures for the fiscal year ended September 30, 2007, amounted to $5,077,114.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-49

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid – Title XIX) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Eligibility

Criteria
As described in 42 USC 1320b-7(d), 42 CFR sections 435.907 and 435.913, a written application signed under penalty of perjury and inclusion in each applicant's case records required to support the agency's decision on the application is required.

Condition Found
During our testing of eligibility for individuals, for 19 out of 60 cases selected for our test, the Program was unable to provide the following information to support eligibility:

No.	MAP Case Number	Comments
1	6C0390015912210	**B**
2	9C0390015962211	**B**
3	6C0360182782202	**B**
4	6C0360223172202	**B**
5	9C0390015732211	**B**
6	8C0380192882214	**B, C**
7	7A0370120132203	**A**
8	7C0320010962216	**A**
9	7C0360163473210	**A**
10	7D0310039952101	**A**

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-49 (continued)

Condition Found (continued)

No.	MAP Case Number	Comments
11	8C0370131352112	**A**
12	7A0380170433202	**C**
13	7C0370103683211	**C**
14	7C0370180872113	**C**
15	7C0370183653210	**C**
16	8C0330021682111	**C**
17	8C0380189512210	**C**
18	8C0380190793211	**C**
19	8C0380198372110	**C**

Comments:

- **A**. The participant file was not provided, or file provided was for incorrect fiscal year.
- **B**. The participant file did not include proof of income support.
- **C**. The participant file did not include proof of residency or citizenship.

Questioned Costs
Could not be determined.

Underlying Cause
Although current internal controls provide that eligibility documentation should be maintained in the participant's records, the Bureau was unable to locate the supporting documents of the participant's files selected to support eligibility.

Effect
The Program may have awarded Federal funds to an individual who is not eligible to participate in the Program.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-49 (continued)

Recommendation
The Bureau should implement procedures to ensure that all participant files are properly maintained and available. A checklist of documents required to support eligibility and maintained in each file could assist with this process.

Management's Response
DOH – MAP concurs.

A. Four (4) of the files were inaccessible due to storage in a room in the St. Croix office which was cordoned off by the EPA because of mold. The eligibility form for the first file was found in the file and is available.

A mold remediation program has been initiated in the St. Croix building. Further, MAP anticipates scanning patient information in its VIMS (Virgin Islands Medicaid System) in addition to capturing other data and information in the ERP (Enterprise Resource Planning) System.

Directives to make the information easier for the Audit staff to locate and identify were given to the Certification staff and were implemented. Additional efforts were made after the audit report was rendered and the missing files were located, and evidence was identified. E&Y was advised. The file area that was off limits due to Mold has been cleaned and it is currently available for use.

Person Responsible: Executive Director and Administrator Fiscal Services, Medical Assistance Program (MAP) – Department of Health

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-50

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid – Title XIX) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Eligibility

Criteria
Pursuant to 42 USC 1396b and 42 CFR parts 431.800 through 431.865, states are required to operate a Medicaid Eligibility Quality Control (MEQC) system in accordance with requirements established by the Centers for Medicare and Medicaid Services (CMS). The MEQC system re-determines eligibility for individual sampled cases of beneficiary eligibility made by state Medicaid agencies or their designees.

However, most states are operating MEQC pilots or have been given a waiver from the traditional MEQC program described in regulation. The pilots and waivers differ from the traditional MEQC program by performing special studies, targeted reviews, or other activities that are designed to ensure Program integrity or improve Program administration.

Condition Found
During fiscal year 2007, the Bureau did not have a functioning MEQC system or any other alternative procedures in place to perform the required eligibility redeterminations.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-50 (continued)

Questioned Costs
None

Underlying Cause
The personnel hired to administer this process resigned during fiscal year 2003. The Program is in the process of interviewing qualified individuals to fill positions required to administer the MEQC system.

Effect
The Program is not in compliance with 42 USC 1396b and 42 CFR parts 431.800 through 431.865. Failure to comply with Program requirements could result in loss of funding or return of amounts previously received.

Recommendation
We recommend that the Program develop a MEQC system and perform the required eligibility redeterminations pursuant to 42 USC 1396b and 42 CFR part 431.800 through 431.865.

Management's Response
We concur with the finding and will consider the recommendation in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-51

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid – Title XIX) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Special Tests and Provisions − Utilization Control and Program Integrity

Criteria
In accordance with 42 CFR parts 455, 456, and 1002, the State plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including long-term care institutions. In addition, the State must have: (1) methods or criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials.

Condition Found
The Bureau was unable to provide supporting documentation to evidence the performance of the procedures throughout the fiscal year of the criteria above.

Questioned Costs
Not applicable.

Underlying Cause
Although the State Plan provides methods and procedures against unnecessary utilization of care and services, the Bureau does not have processes in place to ensure these procedures are performed.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-51 (continued)

Effect
The lack of processes to ensure these procedures are performed may lead to benefits being provided to beneficiaries who may no longer be eligible to receive such benefits.

Recommendation
The Bureau should establish processes to ensure that procedures to safeguard against unnecessary utilization of care and services are placed in operation.

Management's Response
Training will be provided to staff members in order to familiarize and keep them updated in the proper utilization of Medicare/Medicaid procedure and policies and unnecessary utilization of care. Refer to the Corrective Action Plan for further details.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-52

Program

U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid – Title XIX) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
Pursuant to 45 CFR 92.20(b)(1-2), (1) accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Condition Found
Transaction detail of goods and services expenditures (excluding payroll) does not reconcile with CMS-64 total expenditures, as follows:

	Expenses
Goods and Services Transaction detail provided by the Program:	$ 3,661,359
CMS-64 (for all quarters):	2,982,567
Difference:	$ 678,792

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-52 (continued)

Questioned Costs
None, as amounts expended by the Program are in excess of reported Federal expenditures and therefore.

Underlying Cause
Current procedures do not include proper reconciliation of reported amounts to the Program with related accounting records.

Effect
Lack of a supervisory review of reports may result in undetected errors in Federal financial reports. These may lead to incorrect financial information presented in reports submitted to the Federal government.

Recommendation
The Bureau should establish appropriate procedures to ensure that CMS-64 reports are reconciled to the accounting records.

Management's Response
Supporting staff member will make all necessary entries which will be reviewed by supervisory staff member. Refer to the Corrective Action Plan for further details.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-53

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid – Title XIX) - CFDA No. 93.778

Category
Internal Control

Compliance Requirement
Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Matching, Level of Effort and Earmarking, Period of Availability of Federal Funds, Procurement, Supervision and Debarment

Criteria
Pursuant to 45 CFR 92.20 (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Condition Found
During our internal control testing of goods and services transactions, we noted internal control deficiencies in the following transactions as follows:

PO No.	Document No.	Amount	Comments
27005523	33263	$ 1,392	A
27028366	Various	88	A
27027700	127109	950	A
27057724	127508	12,326	B
27027704	128256	29	A

Comments:

A. Approval date is after invoice date.
B. Approval process was not properly followed.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-53 *(continued)*

Questioned costs
Not applicable.

Underlying Cause
Current internal controls are not effective to ensure approval of expenditures prior to the program incurring on them.

Effect
Lack of effective internal controls that ensure approvals are made prior to incurring on an expenditure may lead to unallowable expenditures.

Recommendation
The Bureau should ensure that established procedures to approved purchase orders prior to incurring in expenditures are properly followed.

Management's Response
We concur with the finding and will consider the recommendation in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-54

Program

U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid – Title XIX) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with the executed Cash Management Improvement Act agreement (CMIA) for the period of October 1, 2005 to September 30, 2007, under the U.S. Department of Treasury regulations at 31 CFR part 205, the Government requires the use of an "average clearance" funding technique for vendor and payroll related costs. Under the "average clearance" funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government's bank account on the fourth day following the release of funds for vendor disbursements and on the day in which payroll checks are released for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-54 (continued)

Condition Found

We tested 4 out of the 35 cash drawdowns totaling $5,551,196 performed during fiscal year 2007. The four drawdowns tested, in the amount of $424,203, were not in compliance with the clearance funding patterns stipulated in the CMIA Agreement according to mail logs maintained by the Department of Finance as follows:

Sample Number	Month	Drawdown. Amount	Date Check Released	Drawdown Deposit Date	Required Deposit Date	Excess Days
1	Apr 07	$ 145,355	1/22/07 – 4/10/07	4/16/07	1/26/07 – 4/16/07	0-80
2	Jun 07	$ 42,419	11/30/06 – 6/22/07	6/29/07	12/6/06 – 6/28/07	1-200
3	Aug 07	$ 232,374	7/6/07 – 8/15/07	8/22/07	7/12/07 – 8/21/07	1-42
4	Sept 07	$ 4,055	9/19/07	9/26/07	9/25/07	1

In all cases, the noncompliance relates to drawdowns being requested after the specified date as per CMIA Agreement. While this circumstance did not lead to drawing funds in advance of the CMIA established timing, it is evidence of lack of sufficient or effective internal controls over drawdowns requirements.

In addition, we noted that there were only 10 cash drawdowns related to payroll expenses, when there are 26 pay periods throughout the fiscal year. As per the CMIA agreement, cash draws related to payroll should be made upon every payday with an average clearance pattern of 0 (zero) days. Thus, we noted that the Program accumulated approximately 5 pay periods per cash draw request, instead of requesting the cash for every pay period, to comply with the CMIA agreement average clearance pattern. While this situation did not lead to drawing funds in advance of CMIA established timing, it is evidence of lack of sufficient or effective internal controls over drawdowns requirements.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-54 (continued)

Questioned Costs
Not applicable.

Underlying Cause
The V.I. Medical Assistance Program's policies (based on V.I. Department of Finance policies) and procedures are not designed and operating effectively to ensure that all drawdowns are being reviewed to guarantee that they are made within the guidelines established by the CMIA Agreement.

Effect
Funds could be reimbursed prior to being incurred and paid or as in the situation as noted above, lack of timely request for reimbursement could adversely affect each flow and also result in loss of interest income.

Recommendation
The V.I. Medical Assistance Program and the Department of Finance should design and implement controls to ensure compliance with the CMIA Agreement. Management should consider periodic monitoring, verification, and reporting of the Department of Finance's progress in implementing the controls.

Management's Response
In response to the drawdown, each drawdown consisted of three or four payrolls. The fiscal year drawdowns cover the total twenty-six (26) pay periods.

The V.I. Medical Assistance Program along with the Department of Finance will work together to design and implement controls to ensure compliance with the CMIA Agreement. However the funds were not drawn prior to the expenses.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-55

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid – Title XIX) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
Pursuant to 45 CFR 92.20(b)(1), accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with financial reporting requirements of the grant.

Condition Found
The Bureau prepares Federal financial reports (CMS-64) based on information obtained from the accounting records of the Program (Bank cash draw detail). The following differences were noted between the cost reported on the CMS-64 and bank cash draws:

Cash Draws as per:		
Bank cash draws detail		$ 5,551,196
CMS-64 all quarters		3,710,261
	Difference	$ 1,840,935

Questioned Costs
$1,840,935

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-55 (continued)

Underlying Cause
Current procedures do not include a reconciliation of the Program's records with Bank cash draws.

Effect
Inaccurate reporting of cash transactions may lead to funds being expended for unallowable costs or reimbursement of unallowable costs.

Recommendation
The Bureau should implement procedures and internal controls to ensure proper reconciliation between cash draws as per bank statements and Federal expenditures at Program level is timely performed and discrepancies are investigated.

Management's Response
We concur with the finding and will consider the recommendation in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-56

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid – Title XIX) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Special Tests and Provisions − ADP Risk Analysis and System Security Review.

Criteria
Pursuant to 45 CFR section 95.621, state agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. State agencies shall review the ADP system security installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews.

Condition Found
The Bureau did not provide supporting documentation to evidence the performance of required ADP Risk Analysis and System Security Reviews.

Questioned Costs
Not applicable.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-56 (continued)

Underlying Cause
Although current policies and procedures include the performance of periodic ADP reviews, the Bureau does not have appropriate controls in place to ensure these procedures are performed.

Effect
The absence of policies to ensure these analyses and reviews are performed may lead to physical and data security issues, and noncompliance with Program requirements.

Recommendation
The Bureau should establish appropriate policies to ensure that required biennial analysis and reviews are being performed.

Management's Response
We concur with the finding and will consider the recommendation in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Homeland Security

Homeland Security Grant Program
CFDA No. 97.067

The Homeland Security Grant Program (HSGP) is intended to improve and significantly enhance the ability of the Nation to prevent, deter, respond to and recover from, threats and incidents of terrorism and to enhance regional preparedness. The HSGP provides financial assistance to the States (and through the States to local governments) to support activities such as planning, equipment, training, and exercises to address critical resource gaps identified in the assessments and priorities outlined within each States' Homeland Security Strategy. States are encouraged to develop regional approaches to planning and preparedness and to adopt, as appropriate, regional response structures.

Total HSGP Federal expenditures for the fiscal year ended September 30, 2007, amounted to $4,020,843.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-57

Program
U.S. Department of Homeland Security – Homeland Security Grant - CFDA No. 97.067

Category
Internal Control / Compliance

Compliance Requirement
Activities Allowed or Unallowed, Allowable Cost/Cost Principles

Criteria
According to OMB Circular A-87, Attachment B, item #8(h)(3), support for salaries and wages, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Condition Found
We selected 25 payments to employees representing $63,042 of total payroll costs of $320,183.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-57 (continued)

Condition Found (continued)
The Office of the Adjutant General (OAG) was unable to provide semi-annual certifications for employees paid with Federal Award for the following employees selected in our payroll cost testing:

#	Employee #	Total Payroll Cost Tested
1	90606	$ 17,291
2	62247	21,570
3	87122	2,584
4	94397	8,922
5	80857	12,675
		$ 63,042

Questioned Costs
$63,042

Underlying Cause
The OAG does not have policies in place to ensure that semi-annual certifications or other support such as time cards to support payroll charges to this Program.

Effect
The lack of evidence supporting review and approval of employee time may result in the inappropriate allocation of personnel charges to Federal grants, leading to reimbursement being made for unallowable costs.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-57 (continued)

Recommendation
The OAG needs to establish procedures to ensure payroll costs charged to grants are appropriate.

Management's Response
We concur with the finding and will consider the recommendation in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-58

Program
U.S. Department of Homeland Security – Homeland Security Grant - CFDA No. 97.067

Category
Internal Control / Compliance

Compliance Requirement
Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Availability of Federal Funds

Criteria
Pursuant to 28 CFR 66.42(e) *Access to records*—(1) *Records of grantees and subgrantees*, the awarding agency and the Comptroller General of the United States, or any of their authorized representatives, shall have the right of access to any pertinent books, documents, papers, or other records of grantees and subgrantees which are pertinent to the grant, in order to make audits, examinations, excerpts, and transcripts.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-58 (continued)

Condition Found

During our testing of compliance over Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Availability, the OAG was unable to provide us with support for 10 out of 25 sample selections totaling $853,206 out of a total of $1,732,630 (nonpayroll) as follows:

#	Date	Purchase Order	Amount	Vendor ID
1	12/22/2006	27003375	$ 4,267	5639
2	11/20/2006	27001021	548	5639
3	11/15/2006	#921022	1,663	12985
4	9/21/2007	27032301	2,399	7100
5	8/23/2007	27027813	2,500	21926
6	9/8/2007	27029752	1,000	8907
7	2/13/2007	27007595	1,230	16940
8	7/12/2007	27027324	1,235	12985
9	9/6/2007	27024251	30,056	19835
10	7/9/2007	27032767	20,395	18114
			$65,293	

Questioned Costs

$65,293

Underlying Cause

The OAG does not have adequate procedures to ensure expenditures reimbursed are adequately supported.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-58 (continued)

Effect
This may lead to costs being disallowed by the Federal awarding agency.

Recommendation
The OAG should implement procedures to ensure that all expenditures are properly supported prior to reimbursement.

Management's Response
The OAG does not agree with the auditor's finding. All reimbursements applied for and received were supported by the expenditure documents. All the documents are in various binders which are available for review.

Auditor's Conclusion
During the performance of our audit procedures, we requested the cited information but it was not provided to us by the OAG. For this reason, we were not able to test it and, therefore, the findings remains as stated.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-59

Program
U.S. Department of Homeland Security – Homeland Security Grant - CFDA No. 97.067

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
Pursuant to 28 CFR 66.42(e) *Access to records*—(1) *Records of grantees and subgrantees*, the awarding agency and the Comptroller General of the United States, or any of their authorized representatives, shall have the right of access to any pertinent books, documents, papers, or other records of grantees and subgrantees which are pertinent to the grant, in order to make audits, examinations, excerpts, and transcripts.

Condition Found
During our audit procedures, the OAG was unable to provide a record of cash drawdowns in 2007 for the 2004 and 2005 grant years.

Questioned Costs
$1,699,377

Underlying Cause
The OAG does not have adequate controls in place to ensure that records are properly maintained.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-59 (continued)

Effect
This control deficiency could adversely affect the department's ability to comply with the cash management requirement of this Federal program. Also, unsupported expenditures may lead to costs being disallowed by the Federal awarding agency.

Recommendation
The OAG should design and implement controls to ensure that records are properly maintained. Management should consider periodic monitoring, verification, and reporting.

Management's Response
We concur with the finding and will consider the recommendation in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-60

Program
U.S. Department of Homeland Security – Homeland Security Grant - CFDA No. 97.067

Category
Internal Control / Compliance

Compliance Requirement
Equipment and Real Property Management

Criteria
Pursuant to 32 CFR section 33.32(d) (1) and (2), property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property; and property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Condition Found
Although a listing was provided to us during the audit, the list was not complete. Additionally, there were no records certifying the performance of a physical inventory of property within the past two years.

Questioned Costs
Could not be determined.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-60 (continued)

Underlying Cause
The OAG did not follow procedures in place to maintain appropriate records for acquisition and control of property acquired with Federal funds.

Effect
Inappropriate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with Federal regulations.

Recommendation
The OAG should perform a physical inventory of equipment purchased with Federal funds and include unrecorded assets with V.I. Property and Procurement Office.

Management's Response
We concur with the finding and will consider the recommendation in our Corrective Action Plan.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-61

Program
U.S. Department of Homeland Security – Homeland Security Grant - CFDA No. 97.067

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
Pursuant to 28 CFR 66.42(e) *Access to records*—(1) *Records of grantees and subgrantees*, the awarding agency and the Comptroller General of the United States, or any of their authorized representatives, shall have the right of access to any pertinent books, documents, papers, or other records of grantees and subgrantees which are pertinent to the grant, in order to make audits, examinations, excerpts, and transcripts.

Condition Found
During our audit, the OAG was unable to provide us with the copies of the SF-269 for the amounts expended in 2007 related to 2004 and 2005 grant awards. Additionally, the department was unable to support the amounts included on the SF-269 for the 2006 grant year.

Questioned Costs

Total drawdowns for 2006 Grant (10/06-9/07)	$ 353,437
Total per SF-269	553,628
Difference	**$(200,191)**

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 07-61 (continued)

Underlying Cause
Processes are not in place to provide for the proper reconciliation of accounting records/information.

Effect
Reimbursement could be made for unallowable costs.

Recommendation
The OAG should ensure that periodic reconciliations between Federal financial reports and the Program's accounting records are performed.

Management's Response
The Virgin Islands Territorial Emergency Management (VITEMA) concurs with the finding.

Although fiscal year 2004 and fiscal year 2005 Homeland Security grants were administered by the Law Enforcement Planning Commission and later by the Office of Homeland Security within the OAG, financial data should have been transferred and made available to the auditors. Effective fiscal year 2010, VITEMA assumed responsibility for all Homeland Security grants and has developed rules and regulations for data retention and dissemination to resolve records managements of all grants transferred including the Office of Homeland Security.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding No. 07-62

Program

U.S. Department of Agriculture – Food Stamp Cluster - CFDA Nos. 10.551 and 10.561; Child Nutrition Cluster - CFDA Nos. 10.555 and 10.559; Special Supplemental Nutrition Program for Women, Infants and Children - CFDA No. 10.557
U.S. Department of Labor – Unemployment Insurance - CFDA No. 17.225
U.S. Environmental Protection Agency – Capitalization Grants for Drinking Water State Revolving Fund - CFDA No. 66.468; Performance Partnership Grants - CFDA No. 66.605
U.S. Department of Health and Human Services – Temporary Assistance for Needy Families (TANF) - CFDA No. 93.558; Child Support Enforcement - CFDA No. 93.563
U.S. Department of Housing and Urban Development (HUD) − Community Development Block Grant/Entitlement Program - CFDA No. 14.218

Category

Internal Control / Compliance

Compliance Requirement

Allowable Costs/Cost Principles

Criteria

Pursuant OMB Circular A-87, Appendix C to Part 225 - State/Local-Wide Central Service Cost Allocation Plans, section G(5) on records retention states that "all central service cost allocation plans and related documentation used as a basis for claiming costs under Federal awards must be retained for audit in accordance with the records retention requirements contained in the Common Rule. In addition, Appendix E to Part 225 - State and Local Indirect Cost Rate Proposals, section D(1)(a) states that "the proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the Common Rule. Per A-102 Common Rule, the supporting records of plans submitted for negotiation to the Cognizant Agency, must be retained for a period of 3-years that starts from the date of such submission.

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding No. 07-62 (continued)

Condition Found
During our audit procedures for Central Services Cost Allocation Plan and Departmental Indirect Cost Rate Proposals, the Government was unable to provide evidence to support the reasonableness of calculations of various indirect cost pools and allocation bases for the following selected Departmental Proposals:

- Department of Human Services
- Department of Health
- Department of Labor
- Department of Justice
- Department of Education
- Department of Planning and Natural Resources

However, we did note that the Cognizant Agency has approved and adjusted all indirect cost and central services cost rates used for all federal assistance programs.

Questioned Costs
Known questioned costs of $1,241,377, based on charges recorded in the Government's financial accounting system (ERP) and program internal records, as follows:

CFDA No.	Program Name	V.I. Department/Agency	Indirect Cost Charged (Federal Share)
10.551/561	Food Stamps Cluster	Department of Human Services	$ 301,230
10.557	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	Department of Health	348,512
17.225	Unemployment Insurance	Department of Labor	160,998
66.468	Capitalization Grants for Drinking Water State Revolving Fund	Department of Planning and Natural Resources	4,154
66.605	Performance Partnership Grants	Department of Planning and Natural Resources	159,133
93.563	Child Support Enforcement	Department of Justice	267,350
			$1,241,377

Part III – Federal Awards Findings and Questioned Costs Section (continued)

Finding No. 07-62 (continued)

Underlying Cause
The operation of internal control over record retention appears not being effectively operating.

Effect
Ineffective operation of internal control over record retention may cause federal grantors to disallow up to 100% of the federal portion of central services and indirect cost reimbursements of certain federal assisted programs.

Recommendation
We recommend the Government to ensure that monitoring activities related to record retention and safeguards are performed periodically in other to improve accountability of documents subject to audits in accordance with the A-102 Common Rule.

Management's Response
OMB does not concur. The Government sought clarification of the information required in order to comply with the request. Only then can a determination be made about the availability and/or accessibility of the information.

Auditor's Conclusion
As detailed in the finding, the referred supporting documentation was not available for review at the time of our audit. Therefore, the finding remains as stated.

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings

September 30, 2007

Finding 06-06

CFDA Number	10.555 and 10.559
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Child Nutrition Cluster
Type of Compliance Requirement	Reporting
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Insular Superintendent STT/STJ & STX, Director of Child Nutrition, SFA Director STT/STJ & STX – Department of Education
Status	Corrected

Finding 06-07

CFDA Number	10.555 and 10.559
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Child Nutrition Cluster
Type of Compliance Requirement	Reporting
Amount of Questioned Cost	For St. Thomas, amounts reported in SF-269 are overstated by $124,416 when compared to supporting internal records, wile for St. Croix, $326,112 when compared to supporting internal records. Unsupported amount requested for reimbursement totals $450,528.
Contact Person Responsible for Corrective Action Plan	Insular Superintendent STT/STJ & STX; Director of Property, Procurement and Auxiliary Services STT/STJ & STX; State Director, Child Nutrition Program; Director of Business Affairs STT/STJ & STX; SFA Director STT/STJ & STX – Department of Education
Status	Recurring (Finding 07-16). The corrective measures were implemented in December 2008.

Finding 06-08

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Social Supplemental Nutrition Program for Women, Infants and Children (WIC)
Type of Compliance Requirement	Special Tests and Provisions: compliance investigation of high-risk vendor.
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Director, WIC Program – Department of Health
Status	Recurring (Finding 07-17). Corrective action was implemented as of September 2008.

Finding 06-09

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Social Supplemental Nutrition Program for Women, Infants and Children (WIC)
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Cost	Could not be determined
Contact Person Responsible for Corrective Action Plan	Director, WIC Program – Department of Health
Status	Recurring (Finding 07-18).

Finding 06-10

CFDA Number	10.551 and 10.561
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Food Stamps Cluster
Type of Compliance Requirement	Reporting
Amount of Questioned Cost	None. Amounts disbursed by the Department were in excess of amounts claims.
Contact Person Responsible for Corrective Action Plan	Deputy Commissioner for Fiscal and Administrative Operations – Department of Human Services
Status	Recurring (Finding 07-13). Corrective action was implemented as of June 30, 2009.

Finding 06-11

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Reporting
Type of Compliance Requirement	None. Amounts paid by VIDOL were in excess of amounts requested for reimbursements.
Amount of Questioned Cost	
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office – Department of Labor
Status	Recurring (Finding 07-35)

Finding 06-12

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, Period of Availability, and Special Test and Provisions: Employer Experience Rating
Amount of Questioned Cost	$457.69
Contact Person Responsible for Corrective Action Plan	Director, Unemployment Insurance – Department of Labor
Status	Recurring (Finding 07-37)

Finding 06-13

CFDA Number	66.605
Federal Agency	U.S. Environmental Protection Agency
Name of Federal Program	Performance Partnership Grants
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Period of Availability
Amount of Questioned Cost	$37,937
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Planning and Natural Resources
Status	Recurring (Finding 07-40)

Finding 06-14

CFDA Number	66.605
Federal Agency	U.S. Environmental Protection Agency
Name of Federal Program	Performance Partnership Grants
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Cost	$6,066
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Planning and Natural Resources
Status	Recurring (Finding 07-41)

Finding 06-15

CFDA Number	66.605
Federal Agency	U.S. Environmental Protection Agency
Name of Federal Program	Performance Partnership Grants
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Period of Availability
Amount of Questioned Cost	Not determinable
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Planning and Natural Resources
Status	Recurring (Finding 07-41)

Finding 06-16

CFDA Number	84.027
Federal Agency	U.S. Department of Education
Name of Federal Program	Special Education – Grants to States
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Period of Availability
Amount of Questioned Cost	$26,470. However, likely questioned costs could be significantly higher due to the condition described related to not being able to reconcile amounts charged to the program with Notice of Personnel Action (NOPA) forms.
Contact Person Responsible for Corrective Action Plan	Director of Special Education – Department of Education
Status	VIDE did not agree with this finding as the third-party fiduciary conducted a payroll audit which resulted in the determination of USDE reimbursement to VIDE.
Auditor's Conclusion	Requirement established by the cited criteria were not complied with. The fact that a third-party fiduciary conducted a payroll audit and that the USDE reimbursed VIDE for these costs are not by themselves evidence of these compliance violations being waived.

Finding 06-17

CFDA Number	84.027
Federal Agency	U.S. Department of Education
Name of Federal Program	Special Education – Grants to States
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Cost	Not applicable
Contact Person Responsible for Corrective Action Plan	Director of Property, Procurement and Auxiliary Services, and Director of Special Education – Department of Education
Status	Corrected in March 2009.

Finding 06-18

CFDA Number	84.298
Federal Agency	U.S. Department of Education
Name of Federal Program	Innovative Education
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Period of Availability
Amount of Questioned Cost	$217,028. However, likely questioned costs could be significantly higher due to the condition described related to not being able to reconcile amounts charged to the program with Notice of Personnel Action (NOPA).
Contact Person Responsible for Corrective Action Plan	Assistance Commissioner – Department of Education
Status	VIDE did not agree with this finding as the third-party fiduciary conducted a payroll audit which resulted in the determination of USDE reimbursement to VIDE.
Auditor's Conclusion	Requirement established by the cited criteria were not complied with. The fact that a third-party fiduciary conducted a payroll audit and that the USDE reimbursed VIDE for these costs are not by themselves evidence of these compliance violations being waived.

Finding 06-19

CFDA Number	84.298
Federal Agency	U.S. Department of Education
Name of Federal Program	Innovative Education
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Cost	Could not be determined.
Contact Person Responsible for Corrective Action Plan	Director of Property, Procurement and Auxiliary Services – Department of Education
Status	Corrected

Finding 06-20

CFDA Number	93.563
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Child Support Enforcement
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Amount of Questioned Cost	$341,000
Contact Person Responsible for Corrective Action Plan	Director, Paternity and Child Support Division (PCSD) – Director of Justice
Status	Corrected

Finding 06-21

CFDA Number	93.563
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Child Support Enforcement
Type of Compliance Requirement	Cash Management
Amount of Questioned Cost	Not applicable
Contact Person Responsible for Corrective Action Plan	Director, Paternity and Child Support Division (PCSD) – Director of Justice
Status	Recurring (Finding 07-50).

Finding 06-22

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Reporting
Amount of Questioned Cost	$2,747,555
Contact Person Responsible for Corrective Action Plan	Director of BHIMA and Administrator, Fiscal Services – MAP-DOH
Status	Recurring (Finding 07-52). Corrective action was implemented in October 1, 2008.

Finding 06-23

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Eligibility
Amount of Questioned Cost	Could not be determined
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator Fiscal Services, Medical Assistance Program (MAP) – Department of Health
Status	Recurring (Finding 07-49). Corrective action was implemented in October 1, 2008.

Finding 06-24

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Special Tests and Provisions: Utilization Control and Program Integrity
Amount of Questioned Cost	Not applicable
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator Fiscal Services, Medical Assistance Program (MAP) – Department of Health
Status	Recurring (Finding 07-51)

Finding 06-25

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Eligibility
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator Fiscal Services, Medical Assistance Program (MAP) – Department of Health
Status	Recurring (Finding 07-50)

Finding 06-26

CFDA Number	10.551 & 10.561/10.555 & 10.559/ 10.557/10.567/17.225/66.605/84.027/ 84.298/93.563/93.778
Federal Agency	U.S. Department of Agriculture/U.S. Department of Labor/U.S. Environmental Protection Agency/U.S. Department of Education/U.S. Department of Health and Human Services
Name of Federal Program	Food Stamp Cluster/Child Nutrition Cluster/Special Supplemental Nutrition Program for Women, Infants and Children/Unemployment Insurance/Performance Partnership Grants/Special Education – State Grants/Innovative Education/Child Support Enforcement/Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	
Status	During the years 2008 and 2009, there has been an ongoing continued effort to update the policies and procedures for the fiscal management of the Government of the U.S. Virgin Islands.

Finding 05-04

CFDA Number	10.551 and 10.561
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Food Stamps Cluster
Type of Compliance Requirement	Cash Management
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Human Services
Status	Corrected

Finding 05-05

CFDA Number	10.555 and 10.559
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Child Nutrition Cluster
Type of Compliance Requirement	Allowable Cost/Cost Principles, Period of Availability
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Director of Child Nutrition and SFA Director STT/STX – Department of Education
Status	DOE did not concur with this finding as documentation was and is available in the Federal grants and Audit Office. Condition not found during current year audit.

Finding 05-06

CFDA Number	10.555 and 10.559
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Child Nutrition Cluster
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Cost/Cost Principles, Period of Availability
Amount of Questioned Cost	$60,803
Contact Person Responsible for Corrective Action Plan	Insular Superintendents, Director of Child Nutrition, SFA Director STT/STX – Department of Education
Status	Corrected

Finding 05-07

CFDA Number	10.555 and 10.559
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Child Nutrition Cluster
Type of Compliance Requirement	Procurement, Suspension and Debarment
Amount of Questioned Cost	Could not be determined.
Contact Person Responsible for Corrective Action Plan	Deputy Commissioner of Procurement (DP&P); State Director, Child Nutrition Program – Department of Education
Status	Corrected

Finding 05-08

CFDA Number	10.555 and 10.559
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Child Nutrition Cluster
Type of Compliance Requirement	Reporting
Amount of Questioned Cost	Could not be determined.
Contact Person Responsible for Corrective Action Plan	Director, Child Nutrition Program and Director, or Federal Grants and Audit – Department of Education
Status	Recurring (Finding 07-16). The corrective measures were implemented in December 2008.

Finding 05-09

CFDA Number	10.555 and 10.559
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Child Nutrition Cluster
Type of Compliance Requirement	Special Tests and Provisions
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Director, Child Nutrition Program and Director, Federal Grants and Audit – Department of Education
Status	Corrected

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Finding 05-10

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
Type of Compliance Requirement	Reporting
Amount of Questioned Cost	$227,629
Contact Person Responsible for Corrective Action Plan	Director, Special Supplemental Nutrition Program for Women, Infants and Children (WIC) – Department of Health
Status	Corrected

Finding 05-11

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
Type of Compliance Requirement	Eligibility
Amount of Questioned Cost	$601
Contact Person Responsible for Corrective Action Plan	Director, Special Supplemental Nutrition Program for Women, Infants and Children (WIC) – Department of Health
Status	Corrected

Finding 05-12

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
Type of Compliance Requirement	Cash Management
Amount of Questioned Cost	Could not be determined.
Contact Person Responsible for Corrective Action Plan	Director, Special Supplemental Nutrition Program for Women, Infants and Children (WIC) – Department of Health
Status	Corrected

Finding 05-13

CFDA Number	15.875
Federal Agency	U.S. Department of Interior
Name of Federal Program	Economic, Social and Political Development of the Territories and the Freely Associated States
Type of Compliance Requirement	Davis-Bacon Act
Amount of Questioned Cost	Could not be determined.
Contact Person Responsible for Corrective Action Plan	Associate Director, Federal Grants Manager Unit, OMB
Status	The Government did not agree with this finding as the Davis-Bacon Act does not apply for DOI-DIA projects.

Finding 05-14

CFDA Number	15.875
Federal Agency	U.S. Department of Interior
Name of Federal Program	Economic, Social and Political Development of the Territories and the Freely Associated States
Type of Compliance Requirement	Reporting
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Associate Director, Federal Grants Manager Unit, OMB
Status	Corrected

Finding 05-15

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Cash Management
Amount of Questioned Cost	Could not be determined.
Contact Person Responsible for Corrective Action Plan	Director, Business and Administration – Department of Labor
Status	Corrected

Finding 05-16

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Reporting
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Director, Unemployment Insurance (UI) – Department of Labor
Status	Recurring (Finding 07-34)

Finding 05-17

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Reporting
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Director, Unemployment Insurance (UI) – Department of Labor
Status	Corrected

Finding 05-18

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Reporting
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Director, Unemployment Insurance (UI) – Department of Labor
Status	Corrected

Finding 05-19

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Special Tests and Provision
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Director, Unemployment Insurance (UI) – Department of Labor
Status	Corrected

Finding 05-20

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	All applicable compliance requirements as stated in OMB Circular A-133.
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Director, Unemployment Insurance (UI) – Department of Labor
Status	Corrected

Finding 05-21

CFDA Number	84.027
Federal Agency	U.S. Department of Education
Name of Federal Program	Special Education – Grants to States
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Cost/Cost Principles, Period of Availability
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Director, Special Education – Department of Education
Status	Corrected

Finding 05-22

CFDA Number	84.027
Federal Agency	U.S. Department of Education
Name of Federal Program	Special Education – Grants to States
Type of Compliance Requirement	Cash Management
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Director, Special Education – Department of Education
Status	Corrected

Finding 05-23

CFDA Number	84.027
Federal Agency	U.S. Department of Education
Name of Federal Program	Special Education – Grants to States
Type of Compliance Requirement	Reporting
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Director, Special Education – Department of Education
Status	Corrected

Finding 05-24

CFDA Number	84.027
Federal Agency	U.S. Department of Education
Name of Federal Program	Special Education – Grants to States
Type of Compliance Requirement	Procurement, Suspension and Debarment
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Director, Property, Procurement and Auxiliary Services STT/STX and Director, Business Affairs STT/STX – Department of Education
Status	Corrected

Finding 05-25

CFDA Number	84.027 and 84.298
Federal Agency	U.S. Department of Education
Name of Federal Program	Special Education – Grants to States and State Grants for Innovative Programs
Type of Compliance Requirement	Compliance Agreement
Amount of Questioned Cost	Could not be determined.
Contact Person Responsible for Corrective Action Plan	Assistant Deputy. Commissioner, Fiscal and Administrative Services – Department of Education
Status	Corrected

Finding 05-26

CFDA Number	84.298
Federal Agency	U.S. Department of Education
Name of Federal Program	State Grants for Innovative Programs
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Cost	Could not be determined.
Contact Person Responsible for Corrective Action Plan	Director, Property, Procurement and Auxiliary Services STT/STX – Department of Education
Status	Corrected

Finding 05-27

CFDA Number	84.298
Federal Agency	U.S. Department of Education
Name of Federal Program	State Grants for Innovative Programs
Type of Compliance Requirement	Matching Level of Effort and Earmarking
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Commissioner, Fiscal and Administrative Services – Department of Education
Status	Corrected

Finding 05-28

CFDA Number	84.298
Federal Agency	U.S. Department of Education
Name of Federal Program	State Grants for Innovative Programs
Type of Compliance Requirement	Reporting
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Assistant Commissioner, Fiscal and Administrative Services – Department of Education
Status	Corrected

Finding 05-29

CFDA Number	93.563
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Child Support Enforcement Research
Type of Compliance Requirement	Cash Management
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Director, Paternity and Child Support Division (PCSD) – Department of Justice
Status	Recurring (Finding 07-50)

Finding 05-30

CFDA Number	93.563
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Child Support Enforcement Research
Type of Compliance Requirement	Special Tests and Provisions
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Director, Paternity and Child Support Division (PCSD) – Department of Justice
Status	Corrected

Finding 05-31

CFDA Number	93.563
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Child Support Enforcement Research
Type of Compliance Requirement	Procurement, Suspension and Debarment
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Director, Paternity and Child Support Division (PCSD) – Department of Justice
Status	Corrected

Finding 05-32

CFDA Number	93.600
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Head Start
Type of Compliance Requirement	Cash Management
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Human Services
Status	Corrected

Finding 05-33

CFDA Number	93.667
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Social Services Block Grant
Type of Compliance Requirement	Procurement, Suspension and Debarment
Amount of Questioned Cost	$460
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Human Services
Status	Corrected

Finding 05-34

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistant
Type of Compliance Requirement	Cash Management
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Executive Director, Health Insurance and Medical Assistance, and Administrator, Financial Services – Department of Health
Status	Recurring (Finding 07-54)

Finding 05-35

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistant
Type of Compliance Requirement	Reporting
Amount of Questioned Cost	$6,418,403
Contact Person Responsible for Corrective Action Plan	Executive Director, Health Insurance and Medical Assistance, and Administrator, Financial Services – Department of Health
Status	Recurring (Finding 07-52). Corrective action was implemented in October 1, 2008.

Finding 05-36

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistant
Type of Compliance Requirement	Procurement, Suspension and Debarment
Amount of Questioned Cost	Could not be determined.
Contact Person Responsible for Corrective Action Plan	Executive Director, Health Insurance and Medical Assistance, and Administrator, Financial Services – Department of Health
Status	Corrected

Finding 05-37

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistant
Type of Compliance Requirement	Eligibility
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Executive Director, Health Insurance and Medical Assistance, and Administrator, Financial Services – Department of Health
Status	Recurring (Finding 07-50)

Finding 05-38

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistant
Type of Compliance Requirement	Matching, Level of Effort and Earmarking
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Executive Director, Health Insurance and Medical Assistance, and Administrator, Financial Services – Department of Health
Status	Corrected

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